SICSIC ADVISORY
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Sicsic Advisory

Insurance Regulatory Forecast

WITH HUGH SAVILL, SENIOR ADVISER

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SENIOR ADVISER

Welcome to the 13th edition of the Sicsic Advisory Insurance Regulatory Forecast. Nervous readers may take the usual precautions to ward off the evil eye, and dodge curses embedded in this unlucky forecast. Personally, I believe that superstition has no place in regulation. So, fingers crossed, here we go.

What can firms expect from the FCA over the autumn? The Consumer Duty is the key. The new Director of Insurance Chris Knight has confirmed that he is a "big fan" - which is just as well really. Developments over the summer show the way forward for the Consumer Duty.

In supervision, the regulator published two reviews of good practice and areas for improvement in July. These reviews are not to be set aside for holiday reading. They set the standards against which firms will be judged. Both reviews (Products and Services, and Outcomes Monitoring) quietly raise the bar for the FCA's expectations.

Over the first two years of the Consumer Duty, the FCA concentrated on whether the firms had the machinery in place to operate under the Consumer Duty. The regulator now expects firms to evidence the impact on customers. The two reviews also cast an oblique light on the recent consultation on scope and proportionality in the Consumer Duty. This will not be a simple deregulatory exercise. The Consumer Duty has changed the pattern of Market Studies. Neither the study on Premium Finance nor the study on Pure Protection ended with new market-wide rules: the Consumer Duty makes this unnecessary. Instead, the burden of remediation is passed to supervision.

Finally, the FCA has confirmed that the Consumer Duty is now feeding through to enforcement, with 11 Consumer Duty investigations in the pipeline, six of them in insurance. With faster authorisations at the front door and enforcement at the back, the Consumer Duty now runs through the whole regulatory cycle.

At the PRA, the new CEO Katharine Braddick has hinted that she might make changes, but this is surely just a tease. Firms should expect a continuing emphasis on financial soundness and stability. The PRA looks where it can for opportunities for growth: the most recent example is the proposals for a new regime for Captives in the UK. And we may see some of the PRA's thinking on alternative capital for life insurers over the autumn. But the PRA also does not hesitate to tighten its regime when market developments increase risk and threaten its objectives. The proposed stiff increases in regulatory capital for Funded Reinsurance in the bulk annuities market are the latest example.

On the legislative front, the Financial Services and Markets Bill (FSMB) contains a package of wide-ranging reforms in financial services, including reform of the Consumer Credit regime, reform of redress and the Financial Ombudsman Service (FOS), simplification of the SM&CR, strengthening of the Appointed Representatives regime, and the legal basis for UK Protected Cell Companies, which the regulators need before extending the new captives regime beyond single-parent captives.

This is enabling legislation: we will have to wait for the regulators' amending rules to see the shape of the new regimes clearly. The Bill has now passed report stage in the House of Lords. This is the stage at which the most amendments are made. Over the autumn we will see which amendments the Government is prepared to accept, and how committed the new Chancellor is to his predecessor's growth agenda.

The Government is also making use of the FSMB to ease the way for the final version of the Gibraltar Authorisation Regime (GAR). The timing of the GAR depends on the passage of the FSMB, and the Treasury will have some work to do on the details after that. So we assume the GAR will arrive sometime next year. In the meantime, the temporary regime falls due again at the end of December, and a further extension looks likely. Gibraltar firms need not wait to prepare.

WEATHER ALERT

This quarter, we warn of the impacts caused by severe weather in the following area.

Artificial Intelligence: the rules may not change yet, but the expectations will

The Mills bomb was a fragmentation grenade used by the British Army in the world wars of the twentieth century. Early versions reportedly did as much damage to their users as to the enemy.

The Mills Review (no connection) came out just before our July Forecast. Commissioned by the FCA Board, Sheldon Mills looked at how AI will reshape retail financial services to 2030 and beyond, and at what that means for the regulator itself. His seven recommendations are addressed to the FCA. They include a review of the regulatory perimeter, coordination across the system, preparing for autonomous models and agentic finance, scaling up the AI Lab, and a new, AI-enabled model of supervision. The FCA has yet to set out its formal response.

For firms, the headline was reassuring: no new AI-specific rules; the Consumer Duty, the Senior Managers regime and operational resilience are the anchors; the framework is judged "sound, but under strain". As we said in July, this is no light touch. A principles-based regime puts the burden of judgement, and of proof, on boards.

Nor do we think "no new rules" is a position that can be sustained for long. As AI reshapes business models, the regulator cannot stay silent on what good looks like. Either way, the FCA will have to spell out its expectations more clearly: through multi-firm reviews, examples of good practice and areas for improvement, and supervision. It has already started to do so. Its September insights on frontier AI and cyber resilience, following the regulators' warning in May, add no rules. But no firm reading them should be in any doubt about the questions supervisors will ask.

The Treasury is pushing in this direction. Its July Financial Services AI Adoption Plan is upbeat about AI but blunt about the regulators: the problem is no longer a lack of support, but its "accessibility, consistency and practical application". The Plan asks for a single source of cross-regulator guidance; a clearer explanation of how the Consumer Duty, model risk management, operational resilience and the SM&CR apply to AI; an FCA review of the advice-like outputs of general-purpose AI tools; and an assessment of whether critical AI and cloud providers should come within the Critical Third Parties regime. That is a long homework list, and clarity on the regulator's expectations is at the top of it.

The advice question goes to the heart of insurance distribution. Ask an AI agent to recommend an insurance policy and it will dutifully do so, rather more quickly than your broker. But what information is it working on? Who is accountable for the recommendation? And which parts of the transaction should the regulator be watching?

Mills describes the regulatory perimeter as "blurred rather than settled", and customers are already arriving with AI agents of their own. This work will need rather more urgency than perimeter reviews usually get.

On governance and human oversight, a consensus is emerging, even if the practice is hard. Nobody can check every decision a system makes. As autonomy grows, oversight means setting the boundaries, permissions and override triggers within which AI operates. Those should be in the hands of people with the competence, the context and the authority to intervene. A reviewer rubber-stamping at the speed of the machine is a human alibi, not oversight. Firms can delegate the task, but not the accountability.

Not every jurisdiction has chosen the UK's principles-based, outcomes-focused approach. The EU has written AI-specific law, and its AI Act is prescriptive and rules-based. Its high-risk obligations, which expressly cover risk assessment and pricing in life and health insurance, have now been pushed back to December 2027. They are deferred, not cancelled. Firms with EU customers, or within EU groups, remain in scope.

The message for firms is simple: do not wait for a rulebook to find out what is expected. Know where you use AI, including tools embedded in vendor platforms. Set a clear policy on how it may be used. Make human oversight meaningful, and monitor outcomes continuously. Our five-pillar governance framework is built for exactly this: inventory, risk classification, testing and validation (TEVV), ongoing monitoring, and governance and reporting. Governance is not the brake on AI. It is what lets firms keep their foot on the accelerator, whatever the weather.

Read more:

The Mills Review and AI governance

Mills Review means AI governance is now a boardroom issue (Originally published on Insurance Post)

The cat won't go back in the box: what the FCA's Mills Review means for firms

Two fears will shape AI's next phase in insurance

WEATHER ALERT

Vertical integration in General Insurance (GI)

In July, the FCA published guidance on the handling of conflicts of interest in vertically integrated general insurance groups. The lens has shifted from contractual chains to ownership. It's meant to capture a variety of groups - both insurer-led and broker-led, full-stack groups, and also structures that are not formal groups but have common shareholders.

The guidance sounds technical and can be read as the regulator's response to specific individual structures that have emerged in the course of industry consolidation. This would be a mistake. The guidance is significant to all links in the GI distribution chain. Boards of rapidly growing groups, and regular investors in GI, would be well advised to consider the implications in depth.

The context is important:

- increasing consolidation in the industry (M&A up from £1.8 billion to £8.4 billion year on year);
- the growing commercial importance of MGAs (now up to £13.2 billion GWP);
- increasing interest from both regulators in how money flows round a group.

The dry requirements of the guidance are that the FCA will, on request, expect a group to demonstrate:

- Conflict management in placement decisions, panel design and product recommendations
- Customer communications, including any claim to independence or to acting in a particular capacity
- Appropriate remuneration and incentive design across the chain, not only your own entity
- Clear allocation of responsibilities across legal entities
- Product governance including fair value assessments
- Monitoring, MI and active senior management oversight

The regulator will be looking for answers to four questions:

- Why does this structure exist?
- What does the whole structure cost the customer, and who captures the value? The answer will read across to your fair value assessments. This may be the most difficult question to answer satisfactorily.
- Can you demonstrate controls against conflicts within the group, and their effectiveness?
- Can the FCA effectively supervise the group/common ownership structure? Many will be surprised to see the regulator point explicitly to supervisability as a threshold condition (COND 2.3.1A); failing it is not a conduct point: it goes to permission to be in business.

That this was the subject of Chris Knight's first blog post shows that it matters to the regulator. Firms should also ensure that they tell the FCA promptly of material changes to their business model – the criteria for notifying are broad.

Two points bite hardest. Owning the chain removes the old excuse that data from other parties is hard to obtain. And where remuneration conflicts with the customer's interest, disclosure is not enough (SYSC 19F.2): the arrangement has to change. Looking ahead, we expect the FCA to weigh the vertical model itself in change in control decisions, with financial resilience, and, in particular, acquisition debt serviced by regulated firms, close behind.

YOUR FORECAST - BY HUGH SAVILL

We present seven regulatory themes below. Weather will happen whether we like it or not, but the dwellings of both brokers and carriers can be better preserved and made weatherproof. So we also put forward our recommendations.

In our forecasts, rainfall means regulatory priorities, wind speeds correspond to the levels of compliance work required. High temperatures equate to external pressures from adverse business and economic conditions, or from media or political criticism.

1. Operational Resilience

A bleak region with no tourist attractions, but of major concern to both regulators, who look across at flash floods elsewhere in the economy and are keen to avoid disasters on their patch.

Forecast	*Rain*	*Wind*	*Temp*
The exciting news is that scientists at the Treasury have discovered a previously unknown species in this region. Four CTPs were caught on camera browsing on clouds. They were instantly placed under regulatory surveillance. Doctors with the Treasury team explained the risk that diseases endemic to CTPs might spread to residents. Regulators remain rightly worried about the threat posed to residents' IT systems by powerful AI models. Residents face persistent questioning about their firewalls. New Council reporting requirements on maintenance and external contractors will lead to a lot of paperwork.			

2. Data use and Artificial Intelligence

This region experienced a brief if glorious period of good weather. AI thunderheads have brought it to an end, and our weather maps offer no clues as to what will follow. The wind has got up, and everybody is pretending that there is no rain.

Forecast	*Rain*	*Wind*	*Temp*
Summer's almost gone. We had some good times, but they're gone. But no regrets, and there is no point moping around like hippies. Action is needed. Unfortunately, we can offer no firm guide to the incoming weather, but it is likely to be bad. Residents should stockpile tinned food, clear their patios and close their windows. Regulators offer plenty of advice about testing IT systems and the governance of AI. Some of it may be useful.			

3. Remuneration and commission

A remote region, whose formerly benign climate has been ruined over the last two years by high winds and torrential rain from the FCA, and volcanic action from the Supreme Court.

Forecast	*Rain*	*Wind*	*Temp*
An eerie calm presides over the blasted motor finance landscape, lit only by pink starlight. The eruption in the Upper Tribunal Range is not due till December or next February. Howling gales whistle through the region as residents prepare for a redress scheme - or worse no redress scheme. At least the rain is likely to hold off. Elsewhere in the region, torrential rain is forecast in Multi-Occupancy Building Insurance (MOBI), but otherwise more settled weather patterns are established. It is time for residents to emerge from their shelters and assess the damage.			

4. Consumer Protection

A region constantly swept by howling gales and heavy rainfall. The weather patterns caused by the landfall of Hurricane Consumer Duty three years ago are now better understood, and the FCA publishes regular bulletins of advice. Residents should by now be well acclimatised.

Forecast	*Rain*	*Wind*	*Temp*
The prevailing Consumer Duty climate pattern has led to more predictable weather. Residents who follow the examples of good practice and room for improvement should be able to avoid damage, and prosper. However, the maintenance programme is extensive, with professional inspections required on consumer understanding, and remedial works on claims handling. Residents of the townships in premium finance and pure protection will be relieved that there have been no major changes, but individual homes will be getting a knock on the door. Householders hoping for the FCA's simplification package may have to wait until the new year.			

YOUR FORECAST - BY HUGH SAVILL

5. Governance and Risk Management Frameworks

This region has traditionally been of little interest to media or public, but both regulators take governance seriously, and trace poor consumer outcomes and prudential setbacks to failures of governance. They also believe that this region holds the key to preventing a disaster in the Data use and AI region.

Forecast	*Rain*	*Wind*	*Temp*
There is a lot more interest in this region all of a sudden. Bearded monks specialising in governance are being consulted in their monasteries. Of course, this of itself does not change the weather in the region. Heavy rain will deluge the oversight of delegated authorities and Appointed Representatives. We also predict stiff winds in some areas, as companies realise that their previously effective systems are no longer up to scratch. But those who had the sense to consult the monks before they hiked their charges should have a good autumn.			

6. Solvency and Financial Resilience

This small but prosperous region is of intense interest to the PRA. The FCA is also increasing scrutiny of brokers' and MGAs' finances.

Forecast	*Rain*	*Wind*	*Temp*
The PRA's Solvency UK weather control system is now complete, and in operation across the region. We expect a long period of settled weather for carriers, though this will be accompanied by regular PRA inspections. Houses heated by Funded Re are in for a nasty shock, and some GI heating systems have started to inflate profitability. Nothing that a little extra regulatory capital will not sort out. But enterprising PRA staff are also trying to equip residents' homes with modern Captives and ILS. They will be the envy of their neighbours.			

7. Sustainability

A varied region, though explorers sent out by the regulators have recently discovered that it is much smaller than they originally thought. Large areas of diversity and climate change have been swallowed, like Atlantis, by the sea. We do not expect them to re-emerge. If anything, the region still seems to be shrinking.

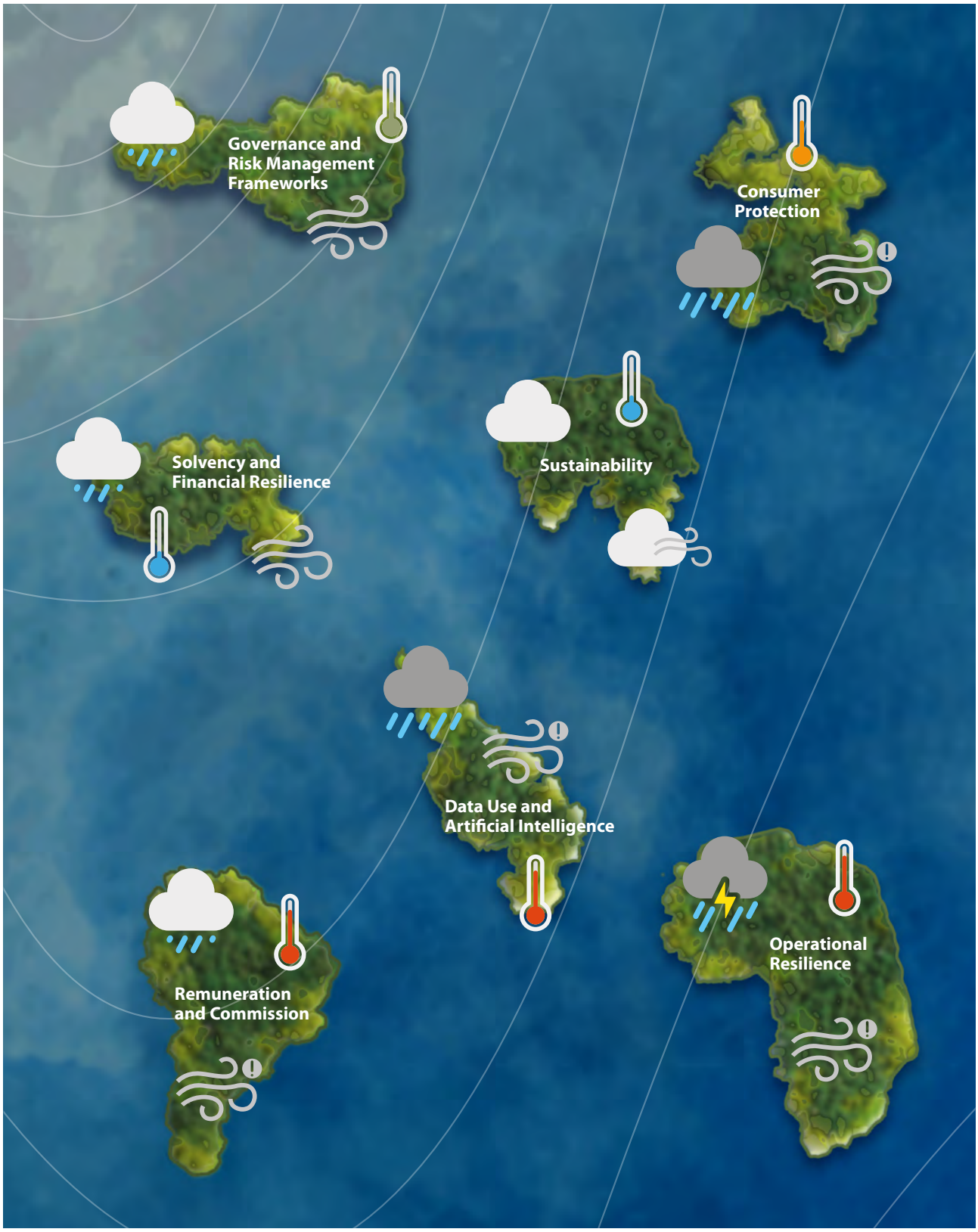
Forecast	*Rain*	*Wind*	*Temp*
Weather conditions in the remains of this region are now warm and sunny, though the complete absence of weather is a bit of a worry. Residents should have started to overhaul their climate-risk frameworks, following the PRA's new specifications, both more detailed and more prescriptive.			

***FORECAST KEY**

	Very good	*Good*	*OK*	*Bad*	*Very bad*
RAINFALL: Regulatory priority					
WIND SPEED: Compliance work					
TEMPERATURE: External pressures					

YOUR FORECAST - BY HUGH SAVILL

FORECAST KEY: Rainfall: Regulatory priority | **Wind speed:** Compliance work | **Temperature:** External pressures (*see detailed key on the previous page)



TIMELINE

H2 2026:

Motor Finance Redress
Redress calculations and payments suspended pending legal challenge to the FCA redress scheme. Upper Tribunal hearing in December or February

Consumer Understanding
Review of work by firms in the home and travel sectors to improve customer understanding of the cover in their policy

Appointed Representatives
Reviews of regulatory hosting and principals' oversight of their ARs

2026

NOVEMBER 2026:

GI Dynamic Stress Test
Publication

Pure Protection ***(13 November)***
TechSprint expressions of interest due

END 2026:

Solvency II Own Funds
Part 1 changes (PS18/26, June 2026) apply from 31 December

EARLY 2027:

Claims Handling
Review of outsourcers and delegated authority models

Simplification of Insurance Rules
CA Policy Statement, with entry into force of the rules to follow shortly after

MARCH 2027:

Operational Resilience
Entry into force of new measures on the reporting of Operational Incidents and Third-Party Reporting

2027

MID-2027:

Captives Regime
Final rules (single-parent captives)

2 DECEMBER 2027:

EU AI Act
High-risk obligations apply, including for life and health insurance pricing

Q4 2026:

Travel Insurance Underwriting
Review of how decisions are made on pre-existing mental health conditions

Closed Book Life Insurance
Focused product review by the FCA, with focus on Child Trust Funds

Solvency II Own Funds
Update

Funeral Plans
Post-implementation review

DECEMBER 2026:

Gibraltar
A further extension looks likely of the temporary regime, with the definitive Gibraltar Authorisation Regime expected in 2027

Third-Country Branches
Entry into force of the abolition of quarterly reporting and modifications by consent

1 JANUARY 2027:

Complaints Reporting
First reporting period under the new regime begins

Q1 2027:

Funded Re
Policy Statement

Consumer Duty – Policy Statement
The scope and proportionality of the Consumer Duty

2027:

SM&CR Reform
Consultation on the second phase - once the FSMB has become law

JULY 2027:

Complaints Reporting
End of first reporting period (for complaints from 1 January to 30 June 2027)

Funded Re
Entry into force of new rules

END 2027:

Third Country Branches
End of transitional period for full reporting by largest Third Country Branches

OUR RECOMMENDATIONS

1 Operational resilience

- ***Q4 2026:*** Bank of England/PRA consultation on ***ICT and cyber risk*** management and resilience
- ***March 2027:*** Deadline for reporting of operational incidents and third-party dependencies

Regular reports in the media highlight Frontier AI models' ability to evade controls set on their activity and penetrate the IT defences of sensitive data stores. Supervisors from both PRA and FCA continue to engage with the market on the governance of AI, testing of models, and cyber security measures. A serious outage in the financial services sector would ramp up pressure on companies' oversight and monitoring of their cyber defences.

In September the FCA published a review on Frontier AI and cyber resilience. This follows up the regulators' statement in May about the risks of Frontier AI, and is about firms' use of frontier AI as a cyber defence tool. Key insights are that Frontier AI helps companies prioritise weaknesses in IT defences, and provides tips on organisational readiness; finally, that effective governance and human judgement are crucial. Companies with well marshalled operating environments and governance are better placed to use the insights of Frontier AI in their cyber defence. Firms should also be left in no doubt that this is a sign of the FCA's expectations.

There will be a PRA/Bank of England consultation in Q4 on managing ICT and cyber risks. The FCA will also be reviewing cyber insurance coverage, to understand the risks and barriers to adoption.

In July the Treasury announced the names of four cloud computing providers, who will be the first to be regulated under the Critical Third Parties regime. It remains to be seen how broadly this regime will be used. The announcement gives a hint of the thinking behind this designation: many providers of financial services use these companies, and so disruption or failure could affect the stability of UK financial services. This sounds like a regime designed for exceptional cases, but in practice it is widely drawn, and could spread over time. The Treasury's AI Adoption Plan also asks the authorities to assess whether critical AI providers should be designated as CTPs.

The regulators have flagged up jointly that the financial system is increasingly inter-connected, and that reported incidents caused by third party suppliers are rising. Firms should not assume that CTP regulation is enough to prevent incidents. Firms also need to play a role, with greater co-operation with CTPs, and improved communication during incidents.

With the new regime for operational incidents and third-party reporting starting in March 2027, firms should by now be well advanced in their preparations.

Executive considerations

- Defences against cyber threats, and contingency planning for dealing with cyber incidents, should be kept under close review in the light of the regulators' heightened concerns about the implications of frontier AI for firms' operational resilience.
- The market had a year to prepare for the new approach to operational incident and third-party reporting requirements. Companies should definitely be working on this now, as their systems will require a complete overhaul. Their revised framework should meet the needs of both PRA and FCA.
- Companies using the cloud computing providers newly designated as Critical Third Parties should engage with them on joint testing and evaluation of resilience.

2 Data use and Artificial Intelligence

- ***H2 2026:*** PRA consultation on ***cyber security and the management of ICT risk***
- ***2 December 2027:*** EU AI Act high-risk obligations apply, including for ***life and health insurance pricing***

See the weather alert on developments in the regulators' approach to AI. There are no new AI-specific rules, but firms can expect a fair amount of work adapting their existing risk frameworks and governance to the new technology. We do not think "no new rules" can be sustained for long. The FCA's expectations will become clearer, first through examples of good practice and areas for improvement.

The regulator is keeping closely in touch with AI use in the market, liaising closely with the industry through the AI lab. There have been three Input Zone Surveys, and a joint survey with the Bank of England. We expect a review of good and poor practices in the autumn.

The FCA is once again asking questions about rating factors and the data used for them.

Executive considerations

- Although the benefits of AI remain huge, and the British authorities are positive about its adoption, the days of hands-off regulation seem to be numbered.
- We strongly believe that safe adoption, and meeting the regulators' rising expectations, requires companies to put in the hard yards now. Sicsic recommends a five-pillar governance framework, with the board setting the AI strategy first:
  - Identifying and documenting all examples of AI usage
  - Risk classification and materiality assessment
  - Testing, evaluation, verification and validation of systems
  - Ongoing monitoring and lifecycle management
  - Governance, accountability and reporting
- Companies with EU activities should seek advice to ensure that their practices meet both regulatory environments.

OUR RECOMMENDATIONS

3

Remuneration and Commission

- ***Redress calculations and payments under the FCA's motor finance redress scheme are suspended pending the outcome of legal challenges.***
- ***14–18 December 2026 or 16–26 February 2027:*** Possible dates for the Upper Tribunal hearing of challenges to the ***motor finance redress scheme.***
- ***18 November 2026 and 18 January 2027:*** Deadlines for firms to write to complainants who are not owed redress under the motor finance scheme.

Motor finance compensation is in limbo following the legal challenges to the FCA's redress scheme. The Upper Tribunal will hear the case in December or in February 2027.

In the interim, the FCA continues to exert pressure on all regulated companies involved. It has launched a nationwide campaign to inform consumers that they can claim redress without paying for the services of a Claims Management Company. The regulator also published in August a review of examples of good and bad practice among the implementation plans of firms preparing for the redress scheme.

If the Upper Tribunal throws out any major elements of the FCA's scheme, the regulator's working assumption is that there will be no general redress scheme, and complaints will need to be settled individually by the lenders and through the FOS. This would be a tortuous and lengthy process for consumers. Strictly speaking, it would not be the FCA's fault, but public and media are unlikely to draw such fine distinctions. This issue retains the capacity to do damage to the FCA.

On 8 July, the Ministry for Housing, Communities and Local Government welcomed an FCA review into insurance premiums for buildings with fire safety risks since the new rules in 2023. The FCA has not commented, but the main elements were reported as:

1. how insurers' pricing approaches have changed over time;

2. how firms are considering leaseholders' interests when assessing whether their products deliver fair value;

3. how building remediation work is being taken into account in insurers' risk assessments.

The review needs to be seen as one element of the authorities' pressure on landlords and property managers. A ban on sharing commission with property managers has already been announced, to be replaced by "permitted insurance payments." We are still waiting for details on these from the Government.

Looking beyond the politically charged circumstances of motor finance and MOBI, there are no new rules on commission on the horizon, though the FCA's scrutiny of remuneration continues through fair value assessments and its work on vertical integration.

Executive considerations

- Companies in retail markets which have not assessed their commission practices against the criteria for an unfair relationship in the Supreme Court Johnson judgment, should do so as a matter of urgency.
- Fair value assessments of remuneration should be kept up to date.
- Groups need to consider their remuneration as a whole. Where remuneration conflicts with the customer's interest, the arrangement needs to change, not simply be disclosed (see Weather alert on conflicts in vertical integration).
- Banks and insurers should draw the consequences of their status as compensators of first resort, and establish a programme to monitor the performance of their intermediaries, and the outcome for consumers.
- Motor finance lenders and brokers should keep to the deadlines that still apply, including writing to complainants who are not owed redress by 18 November 2026 or 18 January 2027.

OUR RECOMMENDATIONS

4

Consumer Protection

- ***H2 2026:*** FCA review of ***consumer understanding*** of cover
- ***Q4 2026:*** Review of decisions on pre-existing mental health conditions for travel insurance
- ***Q4 2026:*** FCA focused product review on closed book life insurance
- ***1 January 2027: Complaints reporting:*** first reporting period under the new regime begins (the first return covers H1 2027)
- ***Early 2027:*** FCA review of Delegated Authority models and remuneration in ***claims handling***
- ***Early 2027:*** Policy statement on ***Insurance simplification.*** Entry into force to follow shortly after.
- ***Q1 2027:*** Policy Statement on ***Proportionality and scope of the Consumer Duty***

The Consumer Duty continues to drive the FCA's work on consumer protection. In July the regulator produced trademark reviews of "good practice and areas for improvement," one on products and services, one on outcomes monitoring. Firms are expected to:

- define good outcomes for each product, at each stage of the customer journey,
- test whether changes made to products or services have the desired effect in practice,
- expect Boards to challenge the reports they receive,
- ensure strong oversight of third parties and the distribution chain.

A report on good practice and areas for improvement in Consumer Understanding is expected in the autumn. The information request was directed at home and travel insurance, and asked questions about firms' testing of consumer understanding, support for it, and actions to improving it. This will be more focused than the FCA's March report on good practice and areas for improvement in Consumer Understanding.

The FCA's work on Consumer Understanding is closely linked to its work on claims. Chris Knight has homed in on possible mismatches between understanding at the point of sale in different distribution channels, and at the time of making a claim.

The GI Value Measures also play a role here. In July, the FCA published last year's results, focused on motor, home and travel insurance. Average pay-outs are increasing in buildings and contents insurance. Claims costs are also rising in travel insurance. Looking forward, the value measures are under review. In September the FCA published a broadly positive post-implementation review, and is consulting on minor changes until 9 October. Major changes have been postponed until 2027 pending the ongoing work on Consumer Understanding and Claims Handling. The review of companies' oversight of delegated authorities and remuneration in claims handling is expected in early 2027.

Work has started on a review of customer journeys, focused on product switching and exiting. It is badged as a review of sludge practices.

The final report of the Market Study on Pure Protection came out in September. The report confirms that there will be no new market-wide rules. The areas the FCA has named (evidence of fair value, target markets for guaranteed over-50s products, the value of income protection, and restricted panels) will be pursued through supervision rather than market-wide intervention. The report completes the FCA's journey from concerns about fair value and high commission rates in the terms of reference to a focus on closing the protection gap. This is to be addressed through TechSprints and collective industry engagement, with TechSprint expressions of interest due by 13 November.

The Premium Finance Market Study reported in February, but the FCA has confirmed that supervisory attention continues, particularly for outlier high APRs charged by carriers. Chris Knight has said that he would like to see the high APRs come down.

Both Market Studies show what to expect in future under the Consumer Duty: no new rules, and harm addressed through the supervisory route.

The first new complaints report may be in the middle of next year, but this means that systems need to be in place to collect the information as required by the new rules by 1 January 2027. This is now urgent business.

Executive considerations

- The nexus between consumer understanding and claims handling remains a key concern for the FCA. Boards should monitor their MI carefully and think carefully about any outsourced claims handling for which they remain responsible. Premium Finance sellers who are not already under FCA scrutiny should benchmark their APRs against others in the market and prepare to justify the value of their offers.
- Participants in the Pure Protection market should, despite the absence of new rules, prepare for supervisory engagement in the fields identified by the FCA in the Market Study.
- Companies must finalise the changes to their complaints reporting systems as a matter of urgency.

OUR RECOMMENDATIONS

5 Governance and Risk Management Framework

- ***H2 2026: Appointed representatives*** – reviews of principals' oversight of their ARs, and of regulatory hosting
- ***Early 2027:*** Review of delegated authorities and oversight of claims handling
- ***2027:*** After passage of the Financial Services and Markets Bill - ***SM&CR Review*** Phase 2
- ***2027:*** After passage of the Financial Services and Markets Bill - ***Appointed Representatives*** regime reforms by the Treasury

Governance and risk management are creeping up the regulatory agenda. They are increasingly seen as an incomplete but appropriate solution to intractable problems such as the safe adoption of AI or the management of climate risk.

The focus on the oversight of delegated authorities will come from both regulators, with the FCA focusing on claims, and the PRA on insurers' oversight of MGAs' underwriting. The PRA is reviewing this through a mix of thematic work and firm-level engagement.

The FCA's attention to the oversight of Appointed Representatives (ARs) will continue throughout 2026 with new data returns, a review of regulatory hosting, and a cross-sector review to check principals' oversight in practice of their ARs.

The FSMB will also create a new permission for firms that want to act as principals to ARs, with a named senior manager accountable for AR oversight and the Ombudsman able to hear complaints against ARs directly. Existing principals should benefit from transitional arrangements, but the gateway will be a genuine hurdle for new entrants.

The next stage of the SM&CR reforms will likely be next year, once the FSMB has passed into law.

Both regulators also attach intrinsic importance to the quality of a company's governance, and to the effectiveness of the company's risk management framework – quite apart from their role in mitigating difficult risks.

Executive considerations

- Considerable work will be involved in the effective integration of AI into existing governance, risk management and control systems.
- Companies should continue to keep their governance and risk management arrangements under regular review.
- Companies should review their oversight of third parties – including ARs, outsourcers and delegated authority arrangements to ensure it stands scrutiny.
- Firms should keep their certification and conduct frameworks in place until the replacement rules are published.

6 Solvency and Financial Resilience

- ***November 2026:*** Publication of the results of the ***GI Dynamic Stress Test***
- ***End 2026:*** Entry into force of ***Third Country Branch*** reforms: abolition of quarterly reporting; modifications by consent
- ***Mid-2027:*** Final rules for the new Captives regime
- ***July 2027:*** Entry into force of PRA rules on Funded Re

Statues of the Roman God Janus usually have a double-faced head. I won't go into his unlikely collection of godly responsibilities, which must have been the subject of many perimeter reviews. The point is that it is now helpful to imagine the PRA as double-headed. One face smiles at financial services, looking out opportunities for growth and international competitiveness. The other face scowls, tightening supervision where risks are increasing.

On the smiley face 😊 *(yes – this is indeed the first recorded use of emojis in this weather forecast),* the proposals for an internationally competitive Captives regime came out in July. The consultation closes on 14 October. UK captives would benefit from reduced capital requirements (the higher of 10% of net premiums or 10% of net insurance liabilities, with a £100 000 capital floor), an accelerated authorisation regime (four to six weeks), and streamlined governance. Compulsory lines would be permitted on a reinsurance basis only - requiring a UK-authorised fronting insurer. All other corporate risks would be permitted to be written direct. In the near term, the winners are likely to be the enablers (fronting insurers, reinsurers, captive managers and brokers) rather than new risk-takers. However, the Government has so far set its face against special tax treatment, and this will restrict the attractiveness of the regime. This consultation covers single parent captives, with a further consultation expected on protected cell companies. The FCA also made proposals for a proportionate conduct regime. Final rules are expected in mid-2027.

Continued over.

Executive considerations

- GI carriers should revisit their underwriting profitability assumptions in preparation for the DyGIST results in November.
- All links in the captives value chain should run a slide rule over the regulators' proposals. Where are the opportunities for your business model? Do your services need to be tweaked to take advantage? Are there places where your safeguards need strengthening? Respond to the consultation by 14 October.
- Life insurers using Funded Re should map their pipeline against the 30 September cut-off, and model the impact of the proposed capital treatment on pricing and business plans.
- GI intermediaries can continue to expect close scrutiny of their financial resilience. Owners of intermediaries, particularly private equity and consolidators, should follow developments closely.

OUR RECOMMENDATIONS

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Solvency and Financial Resilience (continued)

We may also hear more about the PRA's thinking on alternative capital for life insurers in the autumn.

Third-country branches also have reason to smile: the threshold above which the PRA may expect a branch to subsidiarise has risen to £600 million of FSCS liabilities, and quarterly reporting ends at the end of the year.

On the scowling face 😠, the PRA remains willing to tighten its regime where it detects risks to its objectives. Over-optimistic assumptions about profitability in GI are a longstanding bugbear. The PRA sees this as a cause of model drift and understated regulatory capital requirements.

The issue will very likely surface in the results of the GI Dynamic Stress Test (DyGIST), which took place in May. The exercise simulated the outcome of selected stresses in quick succession, including a large cyber attack, falling financial markets, failure of a reinsurer, and a natural catastrophe. Participants seem satisfied with the exercise, though there are of course lessons to be learnt. Results will be published in November.

The clearest example of the scowling face for life insurers came in the spring with the PRA's proposed crackdown on regulatory capital for Funded Reinsurance. Arrangements not fully transferred by 30 September fall within the new treatment, proposed to apply from July 2027.

Following the consultation earlier in the year, the PRA finalised the first of its changes to the Own Funds regime on Solvency II in June (PS18/26), and will publish the rest later this year. The review is slated as a "targeted update" but may have an impact on some insurers' management of their balance sheets.

The rules on preparation for solvent exit came into force at the end of June. Companies should by now have a Solvent Exit Analysis in place, ready to provide to the PRA on request.

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Sustainability

The blank row above says all that needs to be said about the sad decline in interest in sustainability.

Since June, the PRA has expected firms to show a credible and ambitious timetable for closing any gaps against its revised expectations on climate-related financial risk (SS5/25). Companies should now be preparing for supervisors to test those plans.

Executive considerations

- The PRA's revised requirements on the management of climate-related financial risk are more detailed and prescriptive than before, and for most firms will mean substantial upgrades to their climate-related risk frameworks rather than minor adjustments. Scenario planning and identifying adequate data present particular challenges. Boards should by now be receiving reassurance that the PRA's requirements can be met, and advice on the strategic implications.

HOW CAN SICSIC ADVISORY HELP?

Sicsic Advisory is a leading strategic regulatory and risk consultancy, supporting financial services firms to build and grow sustainable businesses. We work with boards and senior executives to shape business models that are commercially successful, operationally and financially resilient.

Our team of 25+ senior consultants brings together ex-regulators, lobbyists, seasoned consultants, and industry practitioners, giving clients direct access to experts who have designed, supervised and implemented regulation and risk solutions.

Covering both prudential and conduct matters, you can tap into our experience and insight from the wider market to develop sustainable business models and achieve business resilience.

Using our forward-looking approach, we can help identify key issues for your business and deliver tailored, practical solutions.

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