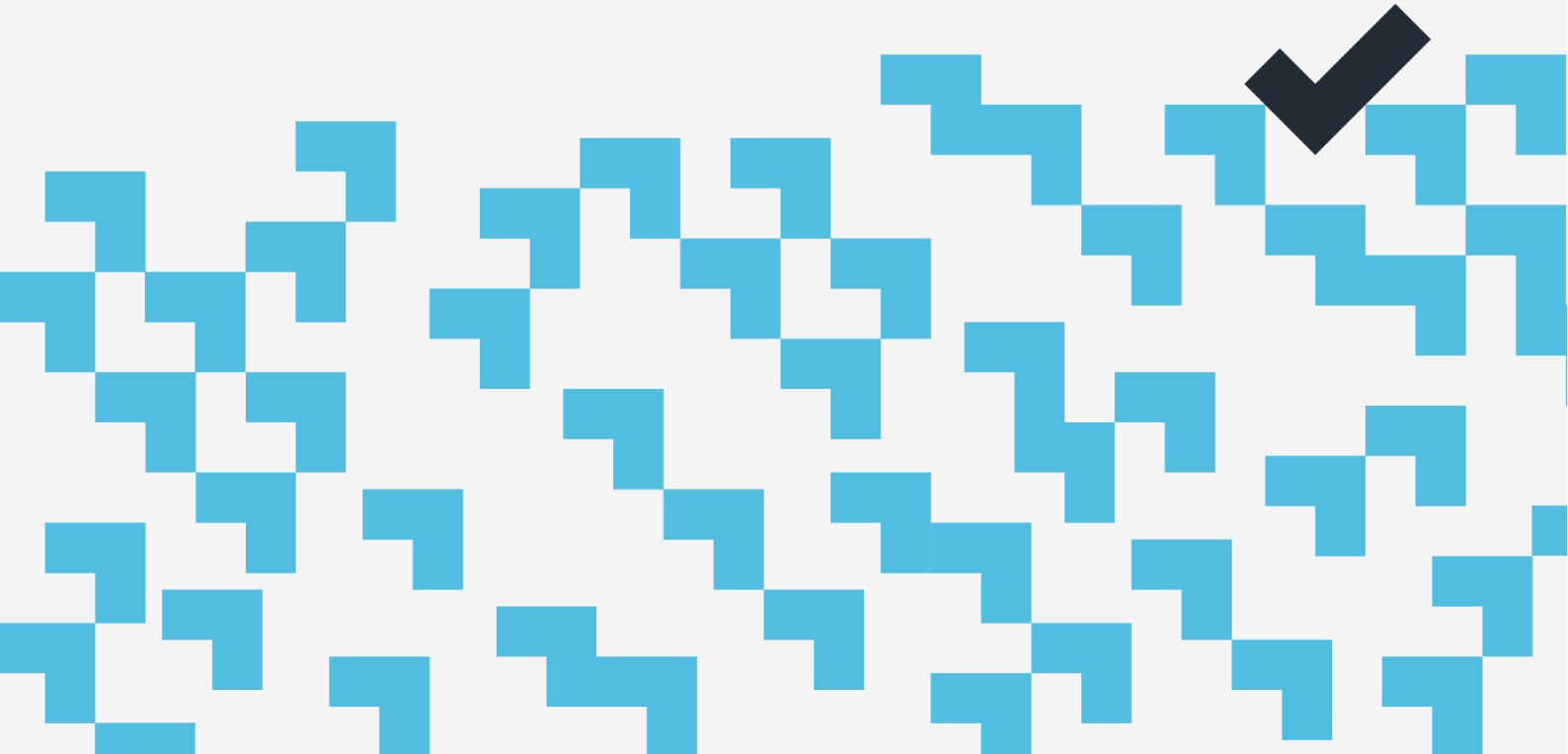




Summary of regulatory developments

Updates for September 2025

This memo identifies and summarises any regulatory updates published during September 2025 which may be of relevance to life insurance companies.

Figure 1 summarises the relevant updates identified in September.

FIGURE 1: REGULATORY ITEMS IDENTIFIED IN SEPTEMBER WHICH MAY BE OF RELEVANCE TO LIFE INSURANCE COMPANIES	
DATE	DESCRIPTION
9-Sep	The Financial Conduct Authority (FCA) publishes feedback on artificial intelligence (AI) live testing.
16-Sep	The FCA publishes first market overview paper on its pure protection market study.
16-Sep	The Prudential Regulation Authority (PRA) publishes consultation paper (CP) 20/25 – Insurance third-country branches: Policy implementation and other updates.
17-Sep	The FCA's chief economist delivers speech on rebalancing risk to facilitate innovation and growth.
18-Sep	The PRA's director for prudential policy delivers speech on funded reinsurance and capital in the bulk annuities (BPA) market.
19-Sep	The FCA's chief data, information and intelligence officer delivers speech on regulating for growth.
25-Sep	The FCA publishes statement on tax-free pension lump sums and cancellation rights.
26-Sep	The FCA publishes CP25/26: Consequential Handbook changes following the proposals in CP25/17.
29-Sep	The FCA publishes letter on Consumer Duty to the Chancellor.
30-Sep	The FCA publishes priorities for 2025 to 2026.

FIGURE 1: REGULATORY ITEMS IDENTIFIED IN SEPTEMBER WHICH MAY BE OF RELEVANCE TO LIFE INSURANCE COMPANIES

DATE	DESCRIPTION
30-Sep	The PRA publishes policy statement (PS) 15/25 – Closing liquidity reporting gaps and streamlining Standard Formula reporting.
30-Sep	The PRA publishes Supervisory Statement (SS) 15/16 – Solvency II: Monitoring model drift and Standard Formula SCR reporting for firms with permission to use an internal model.
30-Sep	The PRA's executive director for prudential policy publishes letter on thematic feedback on accounting for IFRS 9 expected credit losses (ECL).

Updates for September 2025

This section highlights articles released in September 2025 which are of interest to life insurance companies.

FCA

▪ The FCA publishes feedback on artificial intelligence (AI) live testing.

The FCA released an [Engagement Paper](#) on proposals for AI live testing as part of its [AI Lab](#) in April of this year. The [feedback](#) from the 67 respondents was mainly from non-regulated firms such as consultancies and AI specialist firms. Respondents noted the following benefits:

- Improved understanding on how AI models perform under real-world insights and overcoming regulatory and skill restrictions following AI proofs of concept.
- Bridging the guidance gap and creating trust in AI capabilities. This will also remove the hesitation of firms to be the first with AI innovations, as there will be less risk associated due to greater trust with regulations.
- Increased collaboration between firms on model metrics.

Respondents also highlighted areas for which they expect issues to arise:

- Complexity with the deployment of AI models, including assessing performance and validation.
- Lack of explainability, making oversight and governance difficult.
- Considerations on the impacts to consumers.
- Developing standards, including addressing transparency concerns with third-party models.
- Accountability and governance.
- Data and stress testing challenges.

Applications for the first cohort of the AI live testing closed on 15 September 2025 and applications for the second cohort will open before the end of 2025.

▪ The FCA publishes first market overview paper on its pure protection market study.

The market study aims to assess whether the current distribution of pure protection products is appropriate for the FCA's operational objectives, including whether the competition within the market is in favour of consumers. The FCA has requested information from 30 insurers and intermediaries and are conducting consumer research for this study.

By the end of 2025, the FCA plans to publish an interim report with its initial findings and proposed next steps. Before this, the FCA will publish two papers related to the market study. This [paper](#) lays out the structure of the UK pure protection market for retail customers.

The FCA is welcoming feedback until 15 October 2025 via [email](#).

▪ **The FCA's [chief economist delivers speech on rebalancing risk to facilitate innovation and growth](#).**

Highlights from the speech include:

- The FCA is changing its approach to risk via rebalancing and encouraging informed risk-taking.
- Productivity in the UK financial services has stagnated despite technological advances.
- The FCA is improving financial advice and guidance to help consumers invest and save for retirement.
- The FCA is tailoring rules to UK markets, removing unnecessary regulation, and supporting new initiatives, such as setting up a new private stock market, the Private Intermittent Securities and Capital Exchange System (PISCES).

▪ **The FCA's [chief data, information and intelligence officer delivers speech on regulating for growth](#).**

Highlights from the speech include:

- The UK government's growth plans and the [FCA's strategy](#) are focussed on innovation and technology.
- The UK is a leader in global fintech investment and the FCA continues to support fintechs through regulatory tools like [Sandboxes](#) and [Innovation Pathways](#).
- The FCA is piloting [AI Live Testing](#) to help firms safely adopt AI, increase transparency and build trust in financial markets.
- The Chancellor's Mansion House speech in July included ambitions to boost investment and revamp the UK's financial system. Through this initiative, the FCA and PRA were committed to launching a Scale-Up Unit to enhance engagement with fast-growing, innovative firms. A Scale-Up Summit is planned to take place at the end of September.

▪ **The FCA [publishes statement on tax-free pension lump sums and cancellation rights](#).**

The statement follows His Majesty's Revenue and Customs' (HMRC) [newsletter](#) on the application of tax legislation on tax-free pension lump sums. The FCA provides further understanding of the newsletter:

- Under the FCA's rules, if a contract allows an individual to take a Pension Commencement Lump Sum (PCLS), also known as a tax-free lump sum, that does not trigger cancellation rights according to COBS 15.2.
- A firm can voluntarily offer cancellation rights for a PCLS if it wishes to do so, but it will need to consider the tax legislation implications of this action.
- If a consumer has taken a PCLS but then decides to return the lump sum to a pension, tax legislation will affect what a firm and its customer can do and if the consumer will experience a tax charge.

▪ **The FCA [publishes CP25/26 – Consequential Handbook changes following the proposals in CP 25/17](#).**

The CP aims to better support customers through a new support framework. The FCA is proposing the following changes:

- Ensure effective interaction between the new proposed support framework and the existing rules on areas such as those relating to pension choices.
- Refine certain proposals in CP 25/17 on areas such as commissions and charging.
- Ensure that the new proposed support framework aligns with the wider regulatory framework effectively.

The FCA invites comments via an [online response form](#) by 17 October 2025.

- **The FCA publishes letter on Consumer Duty to the Chancellor.**

The letter responds to the concerns about the application of the Consumer Duty to wholesale firms. The FCA explains that the Duty mainly applies where wholesale firms' activities materially impact retail customer outcomes and most wholesale activity is outside its scope.

The FCA also lays out its four-point action plan to amend the Duty's rules to remove any additional burdens from wholesale firms. The FCA aims to address the following by the end of the year:

- Clarify the approach and expectations for firms collaborating on retail products to reduce confusion and compliance costs.
- Consult on updating the client categorisation framework and clarify how firms identify professional clients, possibly using a new asset threshold. The changes could reduce costs, increase opportunities and update exemptions for clarity.

The FCA plans to address the following by the first half of 2026:

- Clarify Duty requirements in distribution chains, review exemptions, define B2B boundaries, and assess further exemption needs. In addition, the FCA will specify when firms can rely on each other during product design and sales.
- Propose excluding non-UK customers from the Duty to reduce complexity and export costs, encouraging businesses to operate in the UK. Potential consumer impacts, including on UK expatriates, will be evaluated before implementation.

- **The FCA publishes priorities for 2025 to 2026.**

The FCA priority areas for 2025 to 2026 include:

- **Consumer Duty:** The FCA is undertaking four cross-cutting review projects: a review of products and services outcome, a review of firms' approaches to outcomes monitoring, a review of firms' customer journey design and a review of the consumer understanding outcome.
- **Data protection:** The FCA and the Information Commissioner's Office (ICO) plan to provide further clarity on the interaction between vulnerabilities, data sharing and data protection expectations in Q1 2026.
- **Fair value:** The FCA priorities are its market study into pure protection insurance, unit-linked pensions and long-term savings, and its market study into premium finance.

PRA

- **The PRA publishes CP 20/25 – Insurance third-country branches: Policy implementation and other updates.**

Following reforms to its third-country branch policies, the PRA has published a CP that sets out the proposals to refine and consolidate the PRA's third-country branch policies for insurance undertakings. In particular, the PRA proposes:

- Raising the insurance liability threshold for requiring third-country insurers to set up a subsidiary from £500 million to £600 million under the Financial Services Compensation Scheme.
- Replacing the modification by consent of Solvency II Reporting for third-country insurance branches and amending the accompanying reporting requirements.
- Amending the existing regulations to permanently incorporate the relief currently granted through modification by consent for pure reinsurance branches.
- Clarifying expectations for third-country branches to complete the Own Risk and Self Assessment (ORSA) and Resolution Reports.
- Restating relevant EIOPA Branch Guidelines in PRA rules and policies, and disapplying those that are not applicable.
- Resolving minor policy inconsistencies across third-country branches.

The PRA invites feedback via [email](#) until 16 December 2025.

- **The PRA's director for prudential policy delivers speech on funded reinsurance and capital in the bulk annuities (BPA) market.**

Highlights from the speech include:

- Life insurers are responding to demographic changes and increased demand for retirement products and long-term investments to meet the infrastructure demands.
- The BPA market is expanding, with more insurers and competition.
- Funded reinsurance is growing due to capital needs, access to unique assets and regulatory differences.
- Concerns on funded reinsurance include systemic risk in the sector, lack of transparency and mismatches in regulatory treatment compared to similar transactions.
- Funded reinsurance may distort investment incentives, moving capital away from UK assets and creating unfair competition.
- The PRA is considering reforms to ensure consistent, fair treatment of funded reinsurance and similar structures, and will consult with industry stakeholders.
- There is an appetite for alternative sources of capital, and Insurance Special Purpose Vehicles could offer new capital options. However, current frameworks pose challenges.
- The PRA will be publishing a discussion paper on alternative life capital options.

- **The PRA publishes policy statement (PS) 15/25 – Closing liquidity reporting gaps and streamlining Standard Formula reporting.**

The statement lays out the feedback to [CP19/24 – Closing liquidity reporting gaps and streamlining Standard Formula reporting](#). The CP proposed introducing new liquidity reporting requirements to address liquidity reporting gaps for insurers with significant exposure to derivatives or securities involved in lending or repurchase agreements. It also proposed streamlining the SF reporting for life internal model (IM) firms.

The feedback was welcoming, with requests for clarification and additional requests for streamlining. As a result, the PRA has made the following amendments to the final policy:

- Delaying implementation for liquidity risk reporting from 31 December 2025 to 30 September 2026.
- Clarifications to the reporting rules, templates or instructions, including clearer definitions.
- Inclusion of a new fund level threshold for the cashflow mismatch template. The liquidity market risk sensitivities template is now required at fund level subject to the same threshold.
- Reducing the number of specific data items required for the cashflow mismatch template. This includes prior month data and daily timesteps for some forward-looking data items.
- Simplification of the reporting on margin requirements for the liquidity market risk sensitivities template and the cashflow mismatch template.
- The PRA now excludes composite IM insurance and reinsurance firms with immaterial non-life holdings from SF.01 reporting. Those with material non-life holdings must report SF.01 only for their non-life business.

- **The PRA publishes Supervisory Statement (SS) 15/16 – Solvency II: Monitoring model drift and standard formula SCR reporting for firms with permission to use an internal model.**

The [SS](#) lays out the expectations for firms with permission to use an IM and additional information on the PRA's approach to monitoring model drift and SF SCR reporting. The PRA tracks model drift by comparing IM SCR with alternative risk measures, analysing outputs and reviewing quarterly change reports. The statement highlights that:

- The SF SCR is central for tracking model drift and advises using it with other measures.
- IM firms should integrate SF SCR into risk management and validation.
- Firms must provide SF SCR estimates upon request and loss of model approval requires this calculation.
- Firms should always be able to calculate SF SCR.
- External audits are not required, but senior management must approve submissions.

- Reports are due four weeks after annual quantitative templates, as per deadlines.
- For groups supervised by the PRA, SF SCR may be required at group level on notification.
- Firms may submit documents explaining their SF SCR's suitability for model drift monitoring.
- Submissions go through the BEEDS portal as 'occasional submissions.'

▪ **The PRA's executive director for prudential policy publishes letter on thematic feedback on accounting for IFRS 9 expected credit losses (ECL).**

The [letter](#) covers feedback on accounting for IFRS9. In particular, the feedback highlighted that model risk remains high due to ongoing macroeconomic and geopolitical uncertainty, with current credit risk factors often differing from those used in legacy models. The PRA asks firms to continually assess process responsiveness and the adequacy of post-model adjustments, and to ensure that they align with supervisory expectations. In addition, the PRA notes that:

- Persistent risks of historical bias in Loss Given Default recovery assumptions and urge improvements for vulnerable sectors.
- Progress on incorporating climate risks into ECL processes is evident but continued enhancements are needed. The PRA's updated supervisory expectations, once finalised, should be considered by firms.

In 2026, auditors will assess firms' progress in the areas covered in the annex of the letter, as well as data quality and securitisation effects in ECL processes.

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