Insurance Regulatory eBulletin

Round up of regulatory developments in September 2025

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Welcome to our Insurance Regulatory eBulletin

Welcome to this edition of our Insurance Regulatory eBulletin which aims to keep you updated with significant regulatory developments from September 2025 and their implications across the insurance sector.

This month's bulletin includes a reminder about the extension to the UK's R&D tax regime in 2024 to include pure mathematics as a qualifying activity. We do note that not every organisation has taken advantage of this and providing contact details for the tax partner Carrie Rutland covering this.

In September, the PRA released updates affecting the Solvency UK Solvency Capital Requirement (SCR). These covered the treatment of funded reinsurance in life bulk purchase annuity buyout firm standard formula SCRs, and expectations for internal model firms regarding model drift. A consultation paper also proposed simplifying measures for Insurance 3rd country branches, like switching from quarterly to annual reporting for small branches.

The FCA announced that 270,000 motorists received £200m in compensation after insurers unfairly deducted from claims for stolen or written-off vehicles. Other FCA publications included guidance on suspicious activity reporting, a study on the pure protection market and updates on UK-Swiss conduct regulation.

EIOPA delivered speeches on insurance's role in societal resilience, AI supervision, and climate risks, focusing on real estate and sustainability impacts. A letter to the European Commission raised concerns about capital relief from EIOPA's Solvency II amendments, noting a 39% risk margin reduction. Additionally, a joint committee report addressed principal impact disclosures under sustainable finance regulations. A separate report highlighted economic challenges due to geopolitical risks.

There were no public announcements from the ICO or FRC in September.

As usual, there's much detail referenced to source documents. I hope you find this helpful in identifying matters relevant to you in keeping abreast of regulatory activity.

Please do not hesitate to contact myself or your usual BDO contact if you have any concerns over any matter highlighted in this update. For more information about our audit, tax and advisory services to the insurance sector, visit our insurance services page. I hope you enjoy reading this latest update.

ALEX BARNES
PARTNER

+44 (0)7903 891 435
alex.barnes@bdo.co.uk

Unlocking R&D tax relief for actuarial modelling

On 1st April 2024 the UK's Research and Development (R&D) tax regime expanded to include pure mathematics as a qualifying activity, however we do note that not every organisation has taken advantage of this, so we are reminding readers of the change that was introduced.

This change opened the door for insurers and actuarial teams to claim R&D tax relief on complex proprietary modelling work that was previously excluded. Under HMRC's broadened definition, R&D now encompasses efforts to resolve technological uncertainty through the development of new mathematical and modelling techniques. For actuaries, this includes:

- Applying AI and data science in novel ways to predict risk and cost
- Tackling technical challenges in modelling projects, such as eliminating false positives or improving accuracy
- Enhancing existing actuarial models to take into accurately handle ever greater volumes of data and new risk
- Building and recalibrating stochastic models for Own Risk Solvency Assessments (ORSA) and capital modelling
- Non-routine use of tools like proprietary modelling software to address specific risk scenarios.

These activities often involve iterative experimentation and problem-solving that go beyond standard practice - meeting HMRC's criteria for an "advance in overall knowledge or capability". Eligible costs include staff salaries, contractor fees, software licences, cloud computing, and data licences directly attributable to R&D. The potential benefit is significant, with relief worth up to 15% of qualifying expenditure. The source HMRC document is section 4 of this link.

BDO Innovation and R&D Tax Incentives dedicated financial services team is led by Carrie Rutland, Partner (carrie.rutland@bdo.co.uk), who previously worked at a major reinsurer. With direct insight into the practical challenges and opportunities within the insurance sector, the team supports clients in preparing robust R&D claims, including drafting the required technical narratives and compiling qualifying cost data, helping to minimise the risk associated with HMRC enquiries. If your actuarial team is solving complex modelling challenges, now is the time to explore how R&D tax relief could benefit your business.

Prudential Regulation

Future banking data roundtable with members of UK Finance and the Building Societies Association

On 11 September, the PRA and Bank of England engaged with non-systemic UK banks and building societies through a roundtable coordinated by UK Finance and the Building Societies Association to discuss reforms under the Future Banking Data (FBD) initiative. Firms expressed support for harmonising data definitions and transitioning to more granular reporting, while also raising concerns about implementation challenges, data quality expectations, and the need for incremental delivery.

CP20/25 Insurance third-country branches: policy implementation and other updates

On 16 September 2025, the PRA published a consultation paper outlining proposed updates to its policy framework for insurance third-country branches. Key proposals include raising the subsidiarisation threshold for liabilities covered by the Financial Services Compensation Scheme (FSCS) from £500 million to £600 million, integrating modifications by consent (MbCs) for reporting and pure reinsurance branches directly into the PRA Rulebook, and refining reporting requirements for smaller branches by reinstating specific annual templates and discontinuing quarterly submissions. The PRA also plans to clarify expectations for Own Risk and Self Assessment (ORSA) and resolution reports, restate selected European Insurance and Occupational Pensions Authority (EIOPA) Branch Guidelines in rules and policy, and address minor policy inconsistencies. Comments should be submitted on or before 16 December 2025.

Funded realignment: Balancing innovation and risk – speech by Vicky White

On 18 September, the PRA gave a speech in which Vicky White, Director of Prudential Policy, highlighting new innovations in the UK life insurance sector, focusing on Funded Reinsurance and capital in the Bulk Purchase Annuities market. She outlined how the PRA aims to balance the risks that some forms of innovation might bring while facilitating ways in which alternative long-term capital options could safely support the market.

The PRA intends to hold round tables later in the Autumn on this topic. They wish to explore whether the current bundled treatment of the components of a Funded Re transaction accurately reflects the risks. The key focus is to seek insight as to whether the investment component of Funded Re should be 'unbundled'; in other words, separated from the longevity reinsurance for valuation in the Solvency UK balance sheet. They have also included a Funded Re recapture scenario in their life insurance stress tests this year. Finally, the PRA will look at whether the Insurance Special Purpose Vehicle (ISPV) framework might offer a legal and regulatory framework for allowing UK life insurers to raise capital as a partial alternative to Funded Re.

SS15/16 - Solvency II: Monitoring model drift and standard formula SCR reporting for firms with permission to use an internal model

On 25 September, the PRA issued a supervisory statement setting out their expectations of firms with permission to use an internal model, and provided further information on the PRA's approach to monitoring model drift and the reporting of SCR information. Model drift is defined as the risk that internal model capital requirements may, over time, become less reflective of a firm's risk exposure. Concern is typically focused on looking for cumulative reductions in internal model SCR over several years in our experience.

The PRA's approach is based on the use of several supervisory tools. These tools include the monitoring of the internal model SCR against alternative measures of risk, analysis of internal model outputs, and analysis of quarterly model change reporting. These alternative balance sheet measures, for which different measures may be used over time, include standard formula

SCR, pre-corridor Minimum Capital Requirement (MCR), net written premium and best estimate liabilities.

The PRA expects internal model firms to maintain the capability to calculate the standard formula SCR and to submit this in full 4 weeks after the annual quantitative template submissions dates.

Conduct Regulation

OPBAS Suspicious Activity Report (SAR) Project: Phase 2 themes and next steps

On 8 September, the FCA Office for Professional Body AML Supervision (OPBAS) published a letter setting out its findings and actions for the legal and accountancy sector Professional Body Supervisors (PBS) in relation to the Suspicious Activity Report (SAR) project. The FCA's letter outlined the important role that the legal and accountancy sector PBSs play in driving up SAR quality. Since publication, OPBAS has progressed risk-based and phased activity on SARs quality. The letter also sets out key themes to support wider understanding and maximise opportunities to further improve SAR quality, including: (i) Clear and accessible SARs; (ii) Proportionate inclusion of relevant information; and (iii) Appropriate use of relevant glossary codes. The FCA also identified these opportunities to improve effectiveness: (i) Referencing open-source information; (ii) Clarity on intended action; and (iii) Joining the dots - linking to other SARs. OPBAS is actively working with partners in UKFIU to support a series of training sessions on SAR quality. Meanwhile, all PBSs should continue to look for ways to enhance their approach to SARs to improve SAR quality which in turn can improve system co-ordination, threat understanding and risk management.

Response to Government consultation on future of payment systems regulation

On 8 September, the FCA published a statement from the Executive Director, Payments and Digital Finance and Payment Systems Regulator Managing Director David Geale in response to the Government's consultation on future payment systems regulation.

Showing financial crime, the red card

On 11 September, the FCA had a speech delivered by the Joint Executive Director of Enforcement and Market Oversight Steve Smart at the 1LoD Financial Crime Summit in London. Smart discussed that: (i) financial crime undermines trust, and tackling it is a prerequisite for growth; (ii) the UK must continue to leverage its strengths to proactively detect and disrupt harm; and (iii) success depends on smart system prioritisation and collaboration.

Authorisation and registration applications - good practice and areas for improvement

On 11 September, the FCA published its guidance on good practice and areas for improvement in relation to authorisation and registration applications. The guidance sets out examples of good practice, as well as examples on areas for improvement, from the applications that the FCA has seen.

MS24/1.3 Structure of the UK Pure Protection Market for retail customers

On 15 September, the FCA published a market study on the structure of the UK pure protection market for retail customers in one of two papers related to the Pure Protection Market Study before the interim report around the end of the year. This paper aimed to set out further factual detail, including on the main products, customers, distribution channels, firm participants, regulatory landscape and market developments, with a follow-up in the interim report on the market’s performance. Comments may be submitted up until 15 October 2025.

Over 270,000 motorists to receive £200m in motor insurance compensation after insurers improve their claims processes

On 19 September, the FCA announced that over 270,000 motorists are set to receive £200 million in compensation after the FCA found that some insurers had underpaid claims for stolen or written-off vehicles by making unfair automatic deductions. Insurers have now improved their claims processes to comply with fair treatment rules, and nearly 150,000 customers have already received £129 million.

Memorandum of Understanding: Berne Financial Services Agreement

On 22 September, the FCA announced that it has signed a Memorandum of Understanding (MoU) with the Bank of England and the Swiss Financial Market Supervisory Authority (FINMA) to facilitate supervisory cooperation and information sharing under the Berne Financial Services Agreement (BFSA). The MoU outlines procedures for notifications, reporting, dialogue between authorities, and the exercise of intervention powers related to cross-border provision of insurance and investment services between the UK and Switzerland. This MoU will take effect on the date the BFSA enters into force.

The confidence dividend: Tackling financial crime to strengthen markets

On 23 September, the FCA has published a speech by Therese Chambers, joint executive director of enforcement and market oversight, delivered at AFME's European Compliance and Legal Conference 2025. Chambers highlighted that confidence is crucial for competitive markets and economic growth, and tackling financial crime is a top priority for the FCA. She explained that building trust requires not just enforcement but also proactive prevention, consumer empowerment, and support for innovation. The FCA is improving authorisation processes, supporting new financial advice models, and fostering technological advancements like AI and digital securities.

CP25/26 Consequential handbook changes following the proposals in CP25/17

On 26 September, the FCA issued a consultation paper on consequential Handbook changes following the proposals in CP25/17. This paper sets out the FCA's response to feedback received on CP25/17, which introduced a framework for a new form of support called targeted support. Targeted support would allow firms to provide suggestions to groups of consumers with common characteristics to help them make financial decisions. The deadline for submitting comments is 17 October 2025. The FCA plans to publish final rules by the end of 2025.

Quarterly consultation paper No. 49 – addendum

On 30 September, the FCA published an addendum to CP25/24 to clarify and amend the proposed draft guidance in the Berne Financial Services Agreement Guide (BFSAG), specifically regarding how deference applies to UK insurers and insurance intermediaries exercising market access rights under the BFSA. The guidance now specifies that while Switzerland has committed to defer to UK authorisation procedures and prudential rules, meaning firms are not required to be authorised in Switzerland or comply with the prudential rules covered by the agreement, untied insurance intermediaries will only be relieved of the obligation to comply with the localisation requirement in article 41.2.a of the Swiss Insurance Supervision Act (ISA) and must still adhere to other Swiss legal requirements governing insurance intermediaries.

EIOPA

We continue to monitor the European Insurance and Occupational Pensions Authority's (EIOPA), activity and draw your attention to it, where we believe it to be necessary or helpful. This will, we believe, assist those firms operating in the EU.

The power of community

On 8 September, EIOPA published a speech delivered by Petra Hielkema, EIOPA Chairperson, at the Global Insurance Supervision Conference on 3 September 2025. In her speech, she discussed the need for resilience in the face of new challenges such as cyber-attacks, climate change, and political tensions, and emphasized the critical role of insurance and insurance supervisors in strengthening society's capacity for resilience.

JC 2025 26 joint committee report on principal adverse impact disclosures under the Sustainable Finance Disclosure Regulation

On 9 September, the European Banking Authority (EBA), EIOPA, and European Securities and Markets Authority (ESMA) published a joint committee report on Principal Adverse Impact (PAI) disclosures under the Sustainable Finance Disclosure Regulation (SFDR) which builds on the work of previous years. The joint committee report includes a qualitative assessment of 65 entity-level PAI statements, and a quantitative assessment by the ESAs of some of the PAI indicators, based on European ESG Template (EET) disclosures data obtained via Morningstar about investment funds' product-level PAI statement on the use of some PAI indicators.

Supervision of AI: finding the right balance

On 16 September 2025, EIOPA published a speech delivered by Petra Hielkema, EIOPA chairperson, at the conference Regulation and Supervision (PROGRES) 2025 - Closing Protection Gaps and Enhancing Inclusive Insurance Through Regulation on 16 September 2025. She spoke about finding a balance between innovation and regulation in the development of AI, as well as the regulation and supervision in place at European level and initiatives at the international level.

Joint Committee Report on risks and vulnerabilities in the EU financial system - Autumn 2025

On 19 September, EBA, EIOPA and ESMA issued their Autumn 2025 Joint Committee Report on risks and vulnerabilities in the EU financial system. This report highlighted a deteriorating economic outlook caused by geopolitical uncertainties in trade and security. The ESAs advised that financial institutions should plan for different scenarios, calling for vigilance in operational and financial stability risks that could arise from cyber risks and monitoring of contagion risks from crypto assets. The report also examined the impacts of US tariff changes and increased spending including defence.

Challenges of climate risks and sustainability

On 24 September, EIOPA published the speech delivered by Petra Hielkema, EIOPA Chairperson, at the EU Dialog organised by ZIA - der Zentrale Immobilien Ausschuss, in Brussels on 23 September 2025. The Chairperson focused on two intertwined imperatives: helping to future proof real estate against natural catastrophes and streamlining sustainability efforts without compromising their impact.

EIOPA-25-674 Letter to the European Commission on Level 2 amendments for Solvency II

On 29 September, EIOPA expressed appreciation for the European Commission's incorporation of its technical recommendations in the proposed Level 2 amendments to Solvency II. However, EIOPA raised concerns about the extent of capital relief introduced, particularly the 39% reduction in the risk margin, warning that such changes could undermine the resilience of the insurance sector amid growing economic and geopolitical uncertainties.

Additional EIOPA updates

EIOPA has also published the following technical solvency 2 related updates:

- EIOPA Publishes Monthly Update of the Symmetric Adjustment of the Equity Capital Charge for Solvency II - End-August 2025 (link)
- EIOPA Publishes Monthly Technical Information for Solvency II Relevant Risk-Free Interest Rate Term Structures - end-August 2025 (link)

There were also 3 updates on the treatment of supplementary (i.e. non social security) pension rights. These covered: support for the development of such pensions in the context of the savings and investments union; technical revisions in support; and a fact sheet covering EIOPA's proposals to adapt its regulatory and supervisory framework (i.e. the Institutions for Occupational Retirement Provision II Directive and the Pan-European Personal Pensions Products Regulation).

Enforcement action

PRA / FCA Regulatory fines & enforcement round-up

We have identified key relevant enforcement action during September 2025 and in this respect, the following announcement has been made by the FCA:

Owenico Finance Ltd	The Financial Conduct Authority (FCA) has cancelled the registration granted to Owenico Finance Limited (the Firm) as a Small Payment Institution (SPI) for failing to provide payment services since 1 January 2020, pursuant to regulation 10(1)(h) (as applied by regulation 15) of the Payment Services Regulations 2017 (the PSRs). The FCA considers that it is appropriate to do so in order to advance its consumer protection and integrity objectives. The Firm has referred this decision to the Upper Tribunal, and it will have no effect pending the determination of the case by the Tribunal. This document is dated 4 June 2025 but was published on the FCA website on 1 September 2025.

CONTACTS

EXTERNAL AUDIT
ALEX BARNES
Partner & Head of Insurance Audit
alex.barnes@bdo.co.uk

GILES WATSON
Partner
giles.watson@bdo.co.uk

TOM REED
Partner
tom.reed@bdo.co.uk

RUPERT LIVINGSTONE
Principal
rupert.livingstone@bdo.co.uk

ADEEL AJMAL
Director
adeel.ajmal@bdo.co.uk

MZ NETYISI
Director
mz.netyisi@bdo.co.uk

INTERNAL AUDIT
CHRIS BELLAIRS
Partner
christian.bellairs@bdo.co.uk

LUKE PATTERSON
Partner
luke.patterson@bdo.co.uk

SAM PATEL
Partner
sam.patel@bdo.co.uk

REGULATORY ADVISORY
MICK CAMPBELL
Partner
mick.campbell@bdo.co.uk

RICHARD BARNWELL
Partner
richard.barnwell@bdo.co.uk

NICOLA BALL
Director
nicola.ball@bdo.co.uk

CASS
JAMES STEELE-PERKINS
Partner
james.steele-perkins@bdo.co.uk

ACCOUNTING & CORPORATE REPORTING ADVISORY
MARK SPENCER
Partner
mark.spencer@bdo.co.uk

ACTUARIAL
GRAHAM HANDY
Partner & Head of Insurance Advisory
graham.handy@bdo.co.uk

ELINORE O'NEILL
Director
elinore.oneill@bdo.co.uk

GRAHAM CORNISH
Director
graham.cornish@bdo.co.uk

WILLIAM DIFFEY
Director
william.diffey@bdo.co.uk

TAX
THOMAS TO
Partner & Head of Insurance Tax
thomas.to@bdo.co.uk

MICHAEL WHITESIDE
Director
michael.whiteside@bdo.co.uk

CORPORATE FINANCE
RAHOEL PATEL
Partner, Head of FS Transaction Services
rahoel.patel@bdo.co.uk

ADAM WHISTANCE
Director & Head of Insurance M&A
adam.whistance@bdo.co.uk

OUTSOURCING
KELLY SHEPPARD
Partner
kelly.sheppard@bdo.co.uk

FOR MORE INFORMATION:

ALEX BARNES

+44 (0)7903 891 435
alex.barnes@bdo.co.uk

GRAHAM HANDY

+44 (0)7876 877 083
graham.handy@bdo.co.uk

www.bdo.co.uk