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Insurance in focus: our 2025 forecast, recast

Beth Dobson	Welcome to the first of our current series of Insurance podcasts. In this edition we will be giving mid-year update of our Insurance outlook. I'm Beth Dobson, Knowledge Counsel with our Insurance practice and I'm joined Nick Pacheco on of our Insurance partners.
Nick Pacheco	Morning Beth.
Beth Dobson	And Charles Randall, a Senior Consultant to Slaughter and May and formerly Chair of FCA and before that a member of the Prudential Regulation Committee.
Charles Randall	Hello.
Beth Dobson	At the beginning of the year we published a dozen or so themes which we thought would be important in 2025, including the impact of the change of government, focus on the competitiveness and growth by both government and regulators, scrutiny of the pension derisking market and expected developments in the London market. This seems like a good time to reflect on those themes and other key developments so far this year and to look ahead to the rest of 2025. So Charles, are you surprised by anything you've seen in the first half of the year?
Charles Randall	Well the changes we've seen so far, changes in tone from the regulators, but any concrete changes in regulation have been fairly incremental. For example, the London Market Group has been pressing for faster progress on developing a UK market for insurance-linked securities and fostering a captives insurance market. Not much has transpired so far on either of those fronts. The FCA has recently published a consultation on some changes to simplify the rules for commercial and bespoke insurance business which we anticipated in our start of year outlook and there's a separate Slaughter and May briefing covering those. These look like helpful proposals but they're largely tweaks to existing requirements rather than anything particularly radical. Rachel Reeves will be unveiling the government strategy for the financial sector in mid-July when she makes her Mansion House speech. And there may be some big announcements then but for the time being progress has been more gradual.
Beth Dobson	Thanks Charles. Nick, what about developments in the life sector so far this year?

Nick Pacheco	Before we look at what's been going on this year, let's actually look back to one of the big changes last year which was a reform to the matching adjustment. Now, these reforms were ones that the industry lobbied really quite hard for arguing that they would free up capital investment and UK infrastructure and other productive assets but as we look back over the last six or so months, it's not clear so far that many firms are actually taking advantage at them. At a Treasury Committee hearing recently, for example, the PRA CEO Sam Woods, suggested that so far there have only been two applications by insurers to use the new flexibility to invest in assets with highly predictable cash flows. We do understand that other such applications are in the pipeline.
Beth Dobson	Yes and according Gareth Truran's recent speech, it sounds as though the two applications which have gone through have involved investing mainly in overseas assets, which wasn't really the original idea.
Nick Pacheco	Yes that's what we understand from Gareth who is the PRA Director responsible for insurance supervision. I mean he recently indicated that the insurers seeking MA permissions for assets with highly predictable cash flows have predominantly been looking to use that for overseas investments rather than in the UK. We, of course, have also had more this year from the PRA on matching adjustment reform in the form of its consultation on the new matching adjustment investment accelerator. Now all of that being said, I think, we're still very much in the early days of the matching adjustment reforms. I'm cautiously optimistic that eventually they will bear fruit for the UK insurance industry and hopefully for the broader UK investment agenda.
Beth Dobson.	Thanks. So what about looking at the pension derisking market?
Nick Pacheco	Well I think there are two themes here, the first is that the market has remained very active in the first half of 2025. There are market forecasts that anticipate that the number of buy-in transaction might exceed 300 for the first time this year and indeed we've been seeing a number of these transactions come through ourselves. The second theme to pick up on is the continuing scrutiny by the PRA of the pension derisking market. The industry was taken somewhat by surprise by some of the comments that the PRA recently made on the possible risks to insurers from termination provisions in BPAs linked to the breach of solvency thresholds. Now this is a new area of regulatory scrutiny even those types of termination rights aren't actually a novel feature of BPA transactions.
Charles Randall	Nick, this is quite a difficult issue isn't it. Because if on the one hand trustees are not allowed to have these termination rights, they could get locked into arrangements with an insurer whose solvency is steadily deteriorating. On the other hand, if there are too many of these termination rights, you could find that insurers go into some sort of spiral as trustees pull out of arrangements with them. So is there are a solution to this problem?

Nick Pacheco	Well I think you're right. There clearly are trade-offs to be thought about here. I think ultimately part of this will depend on the detail of where the triggers are actually set and what the consequences of a trigger being breached are. Ultimately, I think there's going to need to be some coordination between the PRA and The Pensions Regulator to ensure that there are appropriate outcomes for both parties.
Beth Dobson	Thanks both, so now looking ahead. Charles, you mentioned that Rachel Reeves will be unveiling the government's strategy for the financial sector in mid-July. What are your predictions for that?
Charles Randall	Well Beth normally making predictions is a pretty difficult game but I think in this case it's probably pretty easy. We know that economic growth remains the Chancellor's number one priority. So we'll definitely be hearing lots more about competitiveness and growth in the Mansion House speech in July. We may hear some further announcements aimed at feeding the London Market Group with a more concrete plan to progress insurance-linked securities perhaps even a review of the scope to expand other areas of the wholesale insurance market. I think the Chancellor's also bound to mention the recent Mansion House Accord 2.0 in which a number of large insurers pledged that they would invest at least 10% of their defined contribution default funds into private markets by the end of the decade, with at least 50% of that allocated to the UK. Now not all insurers have signed up to this because some of them were concerned that it was inconsistent with their fiduciary duty to policyholders even though frankly there was a lot of wiggle room in the Accord. But a big development since the Mansion House Accord was that the government's come out and confirmed that it does propose to take a reserve power in the Pension Schemes Bill to set targets for schemes to invest in private markets including in the UK. And looking at the detail of that in the Pensions Investment Review final report which the Treasury has published, and frankly there's not a huge amount of detail, it seems clear to me that the government is still rightfully concerned that this mandation power is going to put it on a collision course with some people in the industry. We've already seen senior leaders coming out and calling it a sledge hammer to crack a nut. But also I think showing that they have some legal concerns about this and rightly so because unless a robust connection can be made between investment in private assets, pensioner outcomes and the public interest then compelling this type of investment could amount to unlawful interference with property rights under Article 1 of the First Protocol to the European Convention on Human Rights which has the force of law in the UK through the Human Rights Act and diving into the detail of the Pension Investment Review final report you can see that they talk of taking a reserve power to enable the government to set quantitative baseline targets for pension schemes to invest these assets that they don't really explain whether those targets have very hard edges or what the consequences would be in enforcement terms of failing to meet the targets and they also go out of their way to say that they would only intervene in this way having made a thorough

	assessment of the impacts on savers and economic growth and that the Bill would include provisions to protect savers interests. So I think at the point when the Bill is introduced it will be easy enough for the Chancellor to say that it's compatible with the Human Rights Act. I think it would be a lot harder if the powers were ever used and that may well lead to legal challenges if it ever happens.
Beth Dobson	Thanks Charles. A lot of food for thought there. Thinking about what else on the horizon for the insurance sector. Nick, do you have any particular predictions for the rest of the year?
Nick Pacheco	Well there's a set of issues about access to insurance for retail consumers which will be addressed by the government's Financial Inclusion Strategy which is due around the same as the Financial Sector Strategy and it's going be interesting to see whether this includes radical options to require cross-subsidies for example to make essential insurance cover such as home and motor, for accessible and affordable. Now in policy terms that would be tough to deliver and might even require legislation.
Beth Dobson	It's interesting of course that motor insurance prices have finally started to come down more recently and that could take the pressure of government a bit in this area.
Nick Pacheco	Yes. I think that can only be helpful to the government pursuing its strategy in this area. Interestingly, I think as the year goes on we're also going to be hearing more and more about uninsurable risks including fire and flood risks which are steadily increasing both here and overseas with climate change. And also cyber risks which will be multiplied by artificial intelligence and eventually but quantum computing. Interestingly, cyber insurance prices reportedly fell during 2023 and 2024 but the expectation is that they will go up again at least in the retail sector and probably other sectors as well following the M&S and Co-op cyber attacks. It was notable that the ABI's 10 year vision document, which they published in February, highlighted the need to start building solutions for risks which become uninsurable. Perhaps borrowing from the existing Pool Re and Flood Re models.
Charles Randall	Yes. And I suppose that re-emphasises the fact that the government needs to do more to foster a vibrant reinsurance market and a vibrant market for insurance-linked securities so that there's more strength and depth in the market to take on these kinds of risks.
Nick Pacheco	I agree with that Charles. I think the more items that the government puts in the insurance industry's toolbox to help address some of these needs the better.

Beth Dobson	Charles, what else do you think will emerge of importance to the sector in the rest of 2025?
Charles Randall	Well one major piece of work which the FCA is undertaking is the Pure Protection Market Study and I guess it's clear that the value of a range of protection products will come under close scrutiny and along with that there will be a focus on the length of the distribution chains, the marketing of products to consumers and the commissions paid at each link in the chain. And in that connection, it's worth noting that we're expecting the Supreme Court's judgment in the motor finance litigation in July and they could in principle be some read across from this to a number of other intermediated financial products and services including insurance. Although of course that will depend on the outcome of the litigation and also on the specific features of the products and the markets that they're sold into. Slaughter and May has been advising Close Brothers on its appeal to the Supreme Court so we have been immersed in the various legal and regulatory issues relating to commission structures and disclosures.
Nick Pacheco	And indeed this particular piece of litigation could have impacts on M&A levels in the insurance industry. We've certainly seen in the past that whether it be uncertainty created by regulatory actions, as was the case with protection products, or in the case of litigation that those can have a dampening effect on M&A levels in the sector.
Charles Randall	Yeah. I also predict that we will see steadily intensifying media and regulatory interest in underwriting and pricing algorithms for retail general insurance products. The ABI's 10 year vision spoke of using AI for more targeted underwriting and pricing but of course for every person who gets a better deal as a result, there maybe another who gets a worse deal, or who isn't offered a deal at all and isn't told why. Now that's already a hot topic with some allegations that some sections of the community are paying premiums for insurance which are unfair, Citizens Advice has been leading a very high profile campaign on this. So if insurer's legal departments aren't already hard at work questioning whether their algorithms have inbuilt biases as a result of the training data that's been used or as a result of proxies for certain protected characteristics, they should definitely now get very busy with this.
Beth Dobson	Thanks. So Nick is there one last big issue for insurers in 2025 that we should mention?
Nick Pacheco	I think many insurers are awaiting the outcome of the view of the FOS redress system, currently being undertaken by the Treasury. The insurance industry is often unhappy with the decisions which it receives from the FOS and they're also unhappy with the way that claims management companies are increasingly getting in involved the FOS process. This sometimes involves cases being

	brought which costs the industry significant amounts, even when ultimately those cases are rejected. One of the things which the government has said it will look at is whether the FOS is applying today's regulatory standards to actions which have taken place in the past. A challenge for the rest of the year will be to find a way to make the redress system more predictable and cost effective without undermining what is after all an essential dispute resolution service for a large number of consumers. So it's really important that insurers engage with this review.
Beth Dobson	Thank you both. So to summarise, concrete developments in 2025 so far have been limited but some of the issues which we highlighted in January, such as the government's competitiveness and growth agenda and the PRA's focus on the bulk purchase annuity market remain prominent. Looking ahead, we'll probably hear some further initiatives on growth and competitiveness at the time of the Mansion House speech in mid-July and retail conduct issues are likely to be an ongoing area of regulatory activity. Finally, the prospect of certain risks becoming uninsurable may attract an increasing amount of both regulatory and political interest.
Nick Pacheco	Thanks Beth and thank you also to Charles. That brings us to the end of the podcast. If you would like to discuss any of the points raised in more detail, then please do get in touch with any of us, or your usual insurance practice contact at Slaughter and May. You can make sure that you receive the next instalment in our insurance podcast series by subscribing to the Slaughter and May Horizon Scanning Podcast show wherever you get your podcasts.