THE OUTLOOK FOR THE UK LIFE INSURANCE SECTOR LOOKS VIBRANT

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Over recent months we have seen a variety of developments which point to the UK life insurance sector offering an increasingly attractive opportunity for third party investment as well as for new entrants into the market.

We see the potential for more capital-efficient business and a more competitive regulatory environment, in light of HM Treasury's (HMT) Review of Solvency II and the Future Regulatory Framework Consultation. This, coupled with the UK life insurance sector's resilience during the ongoing Covid-19 pandemic, the current hard market, and the Court of Appeal decision in the proposed Prudential/Rothesay portfolio transfer, all contribute to this vibrant outlook for the sector.

HMT's Solvency II Review Call for Evidence indicates the government's desire to further invigorate activity and to "spur a vibrant, innovative and internationally competitive insurance sector". Among the aspects subject to the review are the risk margin and the matching adjustment, indicating a particular focus on how amendments could benefit and contribute to the growth of the UK life insurance sector. Reforms which focus on reducing the size and volatility of the risk margin, as well as making the matching adjustment more flexible, can provide more freedom for firms to use and manage their assets in a manner that works to their advantage. The result being that not only are firms able to make their existing operations more capital efficient (and thereby providing the opportunity to scale those operations) but also to make the sector more attractive to third party investment.

The fact that the government is also considering simplifying the matching adjustment approval process also opens the door for new launches and entrants in the market. Indeed, there is separate and specific consideration of how the current regulatory capital framework could be reformed to reduce barriers for new entrants to the sector, which would promote the global competitiveness of the UK life insurance sector. This is a welcome development in a post-Brexit environment and one which should be prioritised. In fact, rather than competition being a "secondary objective" to statutory objectives, as proposed by HMT, this renewed focus on competitiveness and opening the market to investment and new entrants should be taken into account in all decision-making, albeit balanced with the other statutory objectives.

There are a variety of other developments outside of the review of the regulatory regime which indicate the UK life insurance sector looks set to remain an attractive market for growth and investment over the coming years. It has proved to be resilient through the Covid-19 pandemic, and in the hardening market, insurance premium growth continues and potential natural hedges to increased Covid-19 claims have emerged as annuity payments cease prematurely. December 2020 also saw the Court of Appeal's decision regarding the proposed Prudential/Rothesay decision which suggests that decision-making on portfolio transfers in the UK market should not differentiate between established players and new entrants in the future, thereby potentially easing concerns for new launches going forward.

The combination of these developments over the last few months therefore provide a positive indication of a vibrant outlook for the UK life insurance sector, with the sector looking set to continue to be increasingly attractive to third party investment and new entrants, despite the complexity of navigating the post-Brexit world and the continuation of the Covid-19 pandemic into 2021.

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