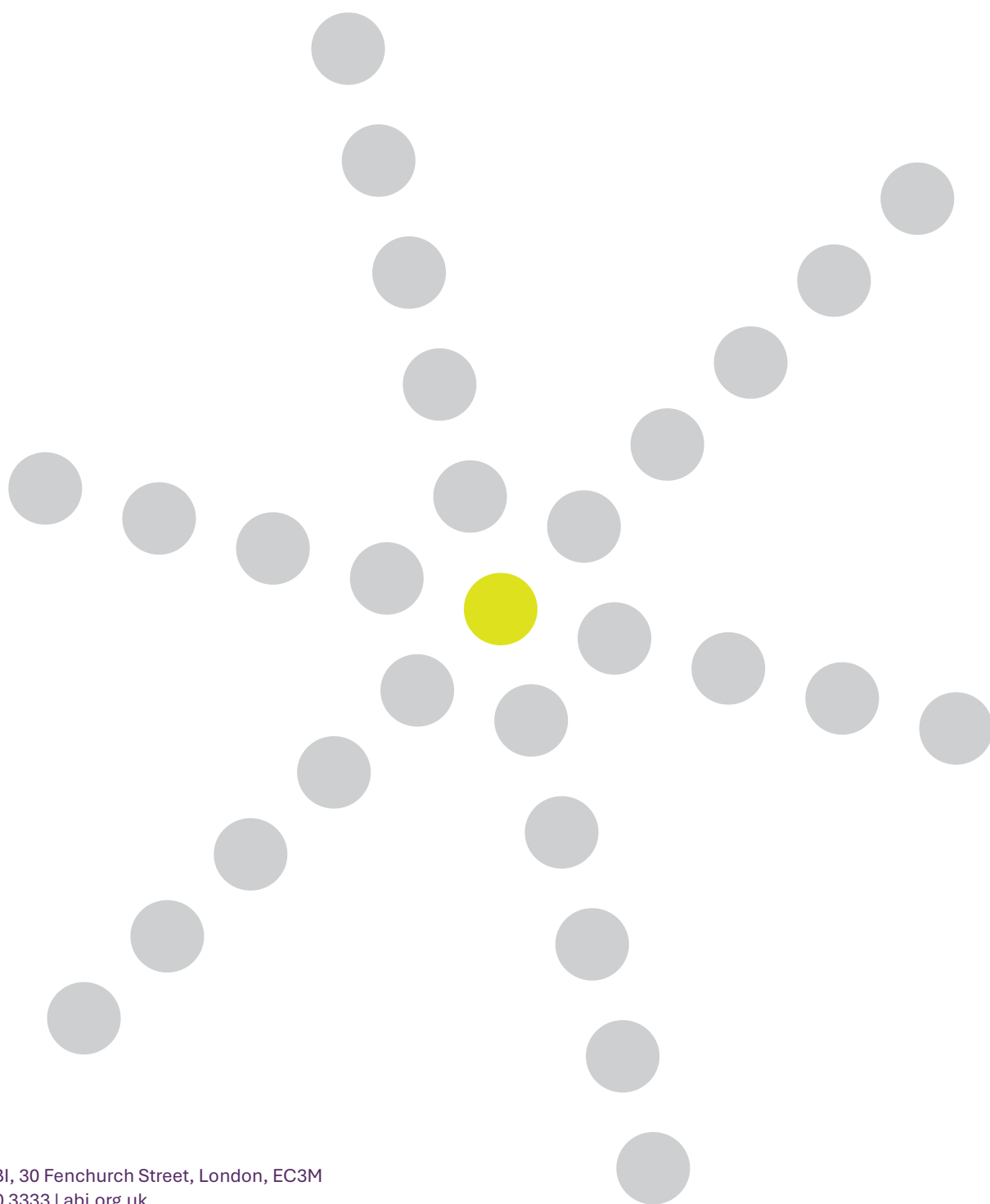


CP20/25 – Insurance third-country branches: policy implementation and other updates

ABI Response



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The ABI is the definitive voice of the UK's world-leading insurance and long-term savings industry, which is the largest sector in Europe and the third largest in the world.

We represent more than 300 firms within our membership including most household names and specialist providers, providing peace of mind to customers across the UK.

Our sector is productive, inclusive and essential to the UK economy and together, we are driving change to protect and build a thriving society.

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Executive summary

The ABI welcomes this consultation and the opportunity to provide comments on CP20/25 – *'Insurance third-country branches: policy implementation and other updates.'*

We are pleased to see this consultation on proposals pertaining to Third Country Branches (TCB), including the review of the long-standing ABI concern regarding the level and rigidity of the FSCS subsidiarisation threshold. We also acknowledge the PRA's proposal to address this issue. Having said this, the ABI would like to share some concerns raised by our members regarding the threshold.

Third-country branch (TCB) subsidiarisation threshold

We acknowledge the increase of the FSCS subsidiarisation threshold; however, the £600 million figure is below the inflationary increases from inception, there is no indication on when this figure will next be reviewed and how the figure came about. For future planning processes transparency is essential and how the figure came about is articulated.

The ABI is also concerned that the PRA's secondary competitiveness and growth objective is undermined by the lack of transparency and the arbitrary nature of the subsidiarisation requirements that could lead to investment leaving the UK. The PRA should consider how regulators in countries like Australia address similar situations by discussing risk mitigation, rather than setting a threshold for subsidiarisation. It is important all alternatives are evaluated to ensure that the UK is an attractive place to do business and reduce red tape where possible.

In terms of evaluating the risk, while FSCS liabilities are relevant they do not fully encapsulate the actual risk of operating as a Third Country Branch (TCB). We believe a proper assessment of risk requires the PRA to take into account firm-specific contextual factors that may lead to the conclusion that a TCB presents a low risk to UK policyholders despite a high level of FSCS liabilities. It is important that contextual factors such as country of domicile, supervisability, capitalisation, diversification, reinsurance, and others are fully considered.

Moreover, there are many other less costly, more effective solutions available to the PRA than to require subsidiarisation such as requiring the TCB to purchase more reinsurance for its risks in UK or ringfence some of its capital in the UK for these risks. These could be combined with enhanced governance and reporting requirement to provide sufficient assurances that UK policyholders will be protected.

[Reporting amendments for smaller branches and Guidance updates and restatement of remaining EIOPA Branch Guidelines](#)

Finally, the ABI urges the PRA to continue engagement ahead of and during the implementation period with Third Country Branches. Especially, regarding the amendments to reporting as these may require enhancements of systems and processes. Regarding reporting, it is also essential that this is proportionate. For example, the proposed reinstatement of IR.19.01.01 (non-life insurance claims) and IR.20.01.01 (development of the distribution of the claims incurred) may require system enhancements and process adjustments could be disproportionate as it will likely be time intensive depending on the branch's existing infrastructure and resource availability.

Chapter 1: Overview

Chapter 2: Third-country branch (TCB) subsidiarisation threshold

1. The ABI are pleased to see that our comments regarding the subsidiarisation threshold back in 2023 (DP2/23 and CP21/23) are reflected in the consultation threshold review.
2. We welcome the PRA's willingness to review the FSCS liability threshold and consider increasing it beyond the current threshold of £500 million. In our original response, we stated that the requirement for a TCB to subsidiarise should it surpass a threshold of £500 million in FSCS liabilities should be urgently reviewed. The £500 million threshold is dated to a pre-Brexit requirement originating from the banking sector, this is not nuanced to the insurance industry.
3. The core concern with the PRA's current approach to insurance branch authorisation lies in its expectation that TCB insurance undertakings must subsidiarise when FSCS liabilities exceed a specified threshold to safeguard the firm's safety and soundness and ensure policyholder protection.
4. While we fully support these objectives, there are two fundamental issues with the current approach. It assumes, by default, that operating as a TCB becomes excessively risky once FSCS liabilities surpass the threshold; and it prescribes subsidiarisation as the sole solution, without considering alternative risk mitigants.
5. We believe an approach that is sophisticated in its evaluation of risk as well as flexible in dealing with it would better protect UK policyholders, while also contributing to the competitiveness of the UK economy as a place for the global insurance industry to continue to invest.
6. In terms of evaluating the risk, while FSCS liabilities are certainly relevant, they do not capture actual risk of operating as a TCB. We believe a proper assessment of risk requires the PRA to take

into account firm-specific contextual factors that may lead to the conclusion that a TCB presents a low risk to UK policyholders – despite a high level of FSCS liabilities. These contextual factors are factors such as country of domicile, supervisability, capitalisation, diversification, reinsurance, and others.

7. By focusing solely on the absolute amount of FSCS liabilities, the PRA's current approach risks being over-inclusive as well as under-inclusive in targeting TCBs for subsidiarisation. There may be large TCBs exceeding the FSCS liability threshold who do not represent a significant risk to UK policyholders because they are highly supervisable, well capitalised, diversified and reinsured. Those firms would be forced to subsidiarise despite being low risk to UK policyholders. Meanwhile, it's possible there are TCBs writing well under the FSCS liability threshold who represent a much larger risk because they don't share any of these characteristics.
8. In terms of dealing with the risk, subsidiarisation is but one solution to manage the problem of the risk of a TCB being too great. However, it is a drastic and costly solution while not always being effective in achieving the result of lowering the risk to UK policyholders. There are more than one-time costs of having a subsidiary authorised, including the ongoing overhead costs of operating it. There is also a significant cost of capital resulting from the loss of diversification and increase in capital that is required to be held in the subsidiary.
9. The subsidiary may end up being riskier to UK policyholders than the TCB with FSCS liabilities being concentrated in a much smaller and less diversified entity. Meanwhile, there are many other less costly, more effective solutions available to the PRA such as requiring the TCB to purchase more reinsurance for its risks in UK or ringfence some of its capital in the UK for these risks. These could be combined with enhanced governance and reporting requirement to provide sufficient assurances that UK policyholders will be protected.
10. In addition, requiring firms to subsidiarise when FSCS liabilities exceed the threshold may not fully align with the PRA's secondary objective to facilitate competitiveness and growth. While we recognise the importance of policyholder protection and firm resilience, this approach may make firms reconsider investing in the UK.
11. Other jurisdictions such as Singapore and Australia haven't taken a more pragmatic approach to risk mitigation. In Australia, the regulator opens up discussions regarding risk mitigation rather than use a threshold only to require subsidiarisation. We want to ensure that the UK is an attractive place to do business and reduce red tape and additional rigid requirements where possible.
12. Instead of using a set and static limit leading to subsidiarisation, we believe the FSCS threshold should be the start of a detailed evaluation of TCB's risk to UK policyholders and where that risk is determined to be too great, then there should be a discussion as to ways the TCB can bring this risk back to an acceptable level. This would not preclude the PRA from requiring subsidiarisation where a TCB is deemed too risky. However, we believe the PRA should properly evaluate a TCB's risk, and consider alternatives to subsidiarisation, before coming to this conclusion.

Setting Threshold Level

13. However, we would like to reiterate that if the threshold of subsidiarisation consideration is set at a static number, it would fail to account for the impact of market conditions. This approach does not reflect the fact that these liabilities can fluctuate significantly over a short period of time, nor does it take inflation into consideration.
14. Furthermore, setting the threshold at a static figure introduces considerable uncertainty regarding when it will next be reviewed. Firms require as much certainty as possible, and as far in advance as possible, to effectively plan their future business models. Linking the threshold to inflation and allowing flexibility to respond to market conditions would enable both existing and prospective branches to better assess their position and adopt more competitive and sustainable business models.
15. A key issue with a fixed threshold for insurers is its inability to take into account the inherently volatile nature of FSCS liabilities, which can be impacted by settlement patterns and increase significantly as a result of reserve strengthening, material catastrophe events or single large claims. These can have the impact of temporarily increasing liabilities that are often revised in subsequent years, for example the Covid 19 pandemic. Its volatility means FSCS liabilities are not reliable as the single metric for the determination of whether a branch should subsidiarise.
16. It risks significantly over-estimating the risk of FSCS liabilities for some firms in that it uses gross liabilities and does not take into account the reality that the FSCS is highly unlikely to ever be liable for that inflated number given potential recoveries.
17. Therefore, if the PRA decides to link the threshold to the levy, this should be associated with net liabilities, which while not accounting for all types of recoveries, more accurately reflects FSCS exposure.
18. The FSCS itself accounts for recoveries when it sets its annual levy. Therefore, the PRA not incorporating them represents an inconsistency in how they are viewed.
19. Despite accounting for recoveries in its levy, for the last three years, the FSCS has announced higher recoveries than anticipated for general insurance, indicating that it is not experiencing challenges in obtaining recoveries. (source: FSCS Outlook May [2023](#), FSCS Outlook May [2024](#), FSCS Outlook May [2025](#)). This further highlights the lack of the annual FSCS levy for this threshold.

Inflation

20. We urge the PRA to reconsider its proposal to link the threshold to inflation. The sharp increases in inflation since 2021 have impacted insurers' costs and, as a result, insurance premiums. This has had a corresponding impact on the level of FSCS liabilities resulting an increased level of FSCS liabilities for the same amount of business.
21. For insurers, capital and business volumes are increasing and yet the PRA's FSCS liability threshold for branches remains the same. Just as insurers are expected to run their business recognising the impact of inflation, we strongly believe the PRA also should in its regulation of the industry. Had the £500m threshold increased in line with inflation since its introduction in 2018, it

would now be over £657m (source: Consumer Price Index inflation data between 2018 and August 2025). By using the £600 million figure, this would show a decrease in the PRA's risk appetite.

22. Moreover, Sam Woods in a speech suggested that indexing threshold would help to avoid prudential drag (Source: [speech](#) 'Competing for Growth' by Sam Woods 17 October 2024), which could potentially trigger regulatory requirements that were not originally intended for firms of that size or risk profile.
23. The thresholds should be indexed to inflation to avoid "prudential drag". We do not agree with linking the threshold to the FSCS general insurance (GI) levy as this does not reflect the liabilities which could transfer to the FSCS in the event of an insurer failure given it is net of reinsurance and does not take into account recoveries, something the FSCS itself considers when setting its annual levy.
24. The threshold should be defined to automatically increase (or decrease) in future in line with an index considered to best reflect claims inflation (or CPI in the absence of any more suitable alternative) to avoid future prudential drag. If this is not the case, then firms should be advised when and how this figure will be updated to help with forward planning.
25. While we believe insurers and banks FSCS liabilities function differently, the PRA has in the past taken the same approach to both when it comes to branch subsidiarisation.
26. The PRA now seems to be proposing to take a stricter approach to insurers than to banks. In May 2025 the PRA announced it would increase the bank branch FSCS liability threshold by inflation in ([PS6/25](#) – International firms: Updates to SS5/21 and branch reporting).
27. The PRA stated that doing so would advance the PRA's secondary objective around facilitating competitiveness and growth in the UK economy, by giving branches more room for deposit growth, and making the UK a more attractive place to establish and expand banking operations. It would be useful for this approach to be taken with regards to the insurance branch threshold. The PRA should provide a suitable rationale in the paper for why this differing approach has been taken.

Chapter 3: Absorption of Modification by Consent (MbCs) into PRA Rulebook

28. The PRA states that firm categories include an element of '*supervisory subjectivity and this is unsuitable for rulemaking*' (paragraph 3.4, consultation paper CP20/25). Given the UK's principles-based approach to regulation, this statement is a cause for concern. An unintended consequence of this proposal is that firms may find themselves being dual regulated in practice by their home state regulator and by the PRA.
29. A better approach would be to link this proposed change to the threshold above as a risk mitigation technique. So, where branches pass the threshold, they would be required submit the full reporting suite applicable to third-country branch undertakings.

Chapter 4: Reporting amendments for smaller branches

30. We believe the PRA should be able to obtain information stated in ORSA's from the home state regulator and therefore it should not be necessary for branches to report on it.
31. A better approach would be to link this proposed change to the FSCS liability threshold above as a risk mitigation technique. So, where branches pass the threshold, they would be required include a high-level summary of the undertaking's solvency position, including a rationale for capital buffers and an overview of stress testing results in the branch ORSA. Regarding the Templates IR.19.01.01 & IR.20.01.01, given the resource impact, the ABI recommends exemption for fully reinsured branches.
32. Furthermore, the proposed reinstatement of these templates may require system enhancements and process adjustments which will be time intensive depending on the branch's existing infrastructure and resource availability. The resource impact should not be underestimated, particularly for branches with limited local operational capacity.
33. We recommend that the PRA provide early technical guidance and validation support to facilitate smooth implementation.
34. To help ensure proportionality and avoid duplication, we ask the PRA to:
 - Endorse explicitly that a combined ORSA with branch annex is acceptable for proportionate branches (meeting SS44/15).
 - Keep risk/governance and asset availability in the ORSA; place the legal wind-up analysis and creditor priority in the Resolution Report, with cross referencing permitted rather than restatement.
 - Confirm proportional branch scenario overlays, rather than a full standalone branch scenario suite.
 - Retain the triennial Resolution Report with ad hoc updates for significant legal change; keep branch content on the undertaking ORSA cycle (out of cycle only if the branch risk profile materially changes).
 - Provide standardised templates and accompanying guidance (e.g., a model contents list for the branch annex and an outline for the Resolution Report, including legal opinion elements) to drive consistency and minimise one off interpretation costs.

Chapter 5: Guidance updates and restatement of remaining EIOPA Branch Guidelines

35. The ABI Requests clarity on transitional arrangements and equivalence.
36. Regarding the implementation timelines, the ABI is supportive. However, we recommend that the PRA maintain ongoing dialogue with industry stakeholders throughout the implementation period to ensure practical challenges are addressed in a timely manner.

Chapter 6: Other minor amendments

No comments.