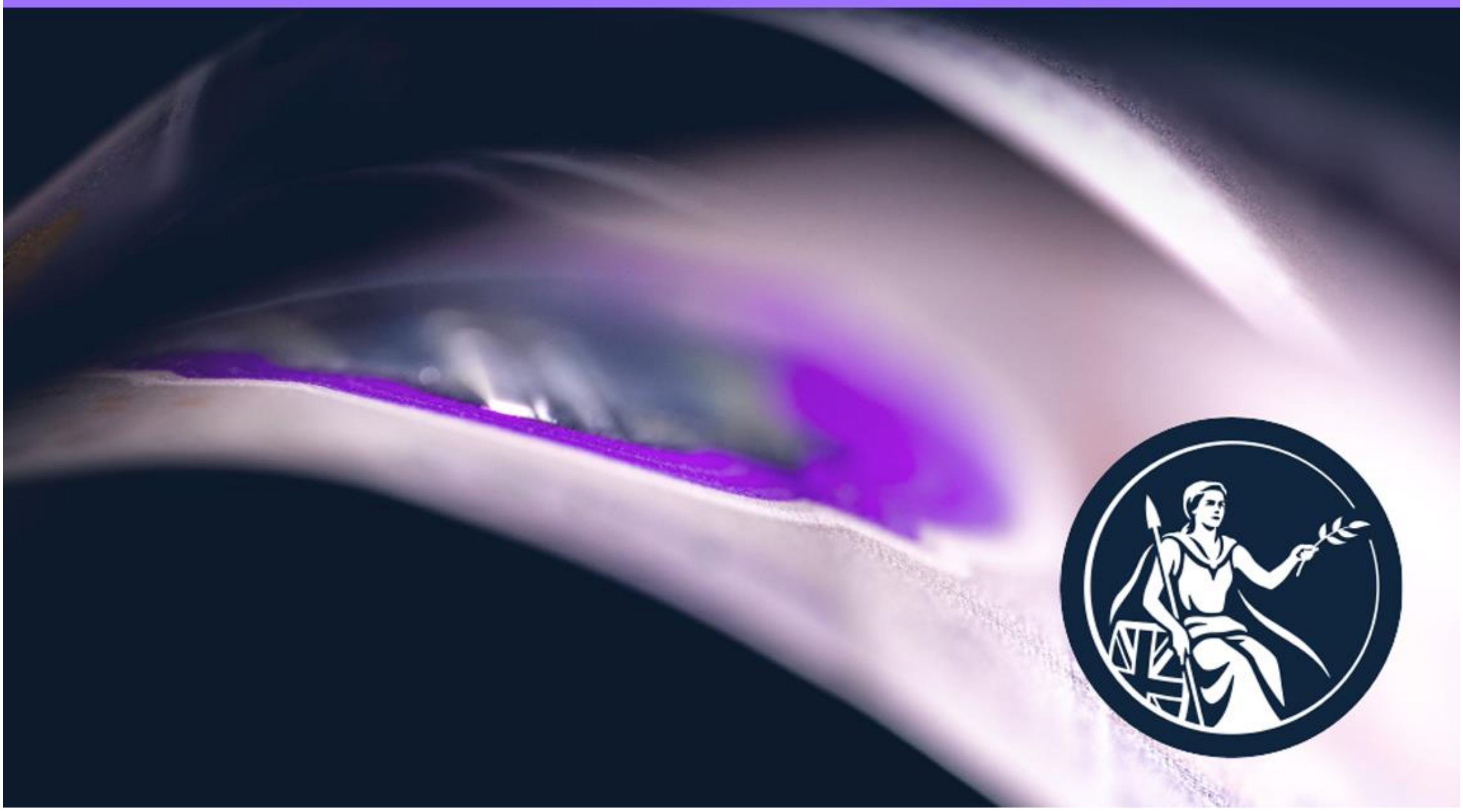
Bank of England PRA

Competitiveness and growth: Embedding the Prudential Regulation Authority’s new secondary objective

A report on both of the Prudential Regulation Authority’s secondary objectives, covering the period from September 2023 to June 2024

Presented to Parliament on 30 July 2024



Competitiveness and growth: Embedding the Prudential Regulation Authority's new secondary objective

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Presented to Parliament pursuant to section 26 of the Financial Services and Markets Act 2023

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Contents

Foreword by the Chief Executive

Sam Woods

Deputy Governor, Prudential Regulation

Chief Executive of the PRA

This is the PRA's first annual report setting out how we have advanced our new secondary competitiveness and growth objective (SCGO), alongside our existing secondary competition objective (SCO). The arrival of a new objective from Parliament is an important moment for the PRA and I have been keen that we fully embrace the SCGO from the start, including by recognising the need for a significant change in what we do at the PRA to implement it. The importance of embedding the new secondary objective effectively was reflected in the requirement – set in legislation – to make two annual reports on the action we have taken. Doubtless there will be a healthy debate and some challenge from industry, but I am proud of the work we have done so far.

As soon as the Financial Services & Markets Bill was published, we set out our initial thinking on what the new secondary objective would mean for the work of the PRA.[1] Once the SCGO came into force, we embedded that thinking into our internal processes and policymaking. Alongside this, we have had extensive external engagement with a wide range of both domestic and international stakeholders. This has informed our approach and supported a shared understanding of what the SCGO means and how it should fit with our existing objectives.

I have seen first-hand how the SCGO has already significantly impacted our policy decisions. For example, when designing the Solvency UK reforms we thought hard about what more we could do to simplify overly complex requirements and help firms play a bigger role in productive investment in the UK economy. And as one of our first actions we removed the bonus cap, which had been identified as a barrier to the

[1] www.bankofengland.co.uk/prudential-regulation/publication/2022/september/pra-approach-to-policy.

competitiveness of the UK financial sector. Actions of course speak louder than words – there are many more examples of early steps we have taken to deliver our new objective, which are set out in this report and which we will build on in future.

We have also worked with our colleagues at HMT to agree on a set of metrics to provide transparency on our work to facilitate competitiveness and growth. The first iteration is published as part of this document. One important part of these metrics highlights the importance of effective but robust authorisation processes, which are a crucial part of the attractiveness of the UK framework. This is another area that we have prioritised over the last 12 months − partly in response to industry feedback. Compliance with statutory timelines in the last quarter has reached 98% or above in all areas of authorisations.[2]

Accountability is a vital part of our license to operate. This takes place most importantly through our accountability to Parliament, for instance in evidence we provide in hearings of the Treasury Select Committee and the new House of Lords Financial Services Regulation Committee. I am also, however, very grateful for the work that the Bank of England's Independent Evaluation Office (IEO) has done to review whether the PRA is set up for success with respect to the SCGO in these early days of implementing it. The IEO found that we have implemented a range of measures to embed the SCGO, including investing in our approach and building appropriate consideration of competitiveness and growth issues into our decision-making processes. The IEO also helpfully identified areas for improvement, which we will keep working on, such as clarifying our vision, ensuring staff across the organisation have a consistent understanding of the SCGO, harnessing intelligence from inside and outside the organisation, and refining our transparency and oversight mechanisms.

We are just at the beginning of delivering our new objective. As with any new objective or responsibility, our approach will evolve as we learn from experience. I look forward to continuing to engage with all interested stakeholders about how we can further advance our new SCGO, alongside our other objectives including competition which is also covered in this report, in the months and years to come.

29 July 2024

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[2] **www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/publication/2023/authorisations-performance-report-q4-202324.pdf**.

1: Introduction

The Financial Services and Markets Act (FSMA) 2023 (hereafter, 'FSMA 2023' or 'the Act'), which received Royal Assent on 29 June 2023, gave the PRA a new secondary objective, which requires the PRA, when discharging its general functions in a way that advances its primary objectives, to act, so far as reasonably possible, in a way that facilitates, subject to aligning with relevant international standards, the international competitiveness of the UK economy (including in particular, the financial services sector through the contribution of PRA-authorised persons) and its growth over the medium to long term.

Section 26 of FSMA 2023 requires the PRA to make two reports to His Majesty's Treasury (hereafter, HMT) explaining the action taken to embed the secondary competitiveness and growth objective (hereafter, SCGO) in its operations, processes and decision-making and how any PRA rules and guidance advance the SCGO. The reports are required to be made to HMT before 28 August 2024 and 28 August 2025. HMT is required to lay the reports before Parliament pursuant to section 26(5) of FSMA 2023.

This is the first report that the PRA publishes to document its progress on the SCGO and it covers the SCGO-related initiatives carried out by the PRA from the date in which the SCGO came into force (29 August 2023) up until 30 June 2024. While this report focuses on the progress that has been made so far on the SCGO, further detail on the PRA's forward-looking plans on the SCGO are set out in the **Prudential Regulation Authority Business Plan 2024/25**. The Business Plan sets out upcoming work on issues such as the Insurance Special Purposes Vehicles (ISPV) regime, further changes to the remuneration regime, a more accessible PRA Rulebook, and the Banking Data Review which will demonstrate ongoing progress on the SCGO. In addition, the Business Plan notes that the PRA will continue to focus on the successful implementation of reforms developed in this first reporting year, such as the new Solvency UK regime.

The introduction of the new secondary objective represents a significant change for the PRA. Since it came into force, the PRA has sought and taken opportunities to advance the new objective in ways that support its primary objectives. It has put a particular focus on embedding the new objective in its policy processes to ensure it has, and has had, an appropriate impact when the PRA is exercising its general functions.[3] This report showcases the steps the PRA has taken in pursuit of the new objective.

The PRA's other objectives were unchanged by FSMA 2023. The PRA has a primary general objective to act in a way that promotes the safety and soundness of PRA-authorised persons so far as reasonably possible, and a further primary objective specific to the regulation of insurers to contribute to the securing of an appropriate degree of protection for those who are or may become policyholders (hereafter, primary objectives). The PRA also has an existing secondary objective, when discharging its general functions in a way that advances its primary objectives, to facilitate effective competition in the markets for services provided by PRA-authorised firms in carrying on regulated activities (hereafter, SCO).

There is a complementary relationship between the primary objectives, the SCO and the SCGO. The PRA's approach to pursuing its primary objectives is grounded in the role a safe and sound financial sector plays in maintaining a strong and dynamic UK economy. Effective competition, by supporting the efficient delivery of vital services, is an important part of this. Additionally, a resilient and dynamic financial services sector can reinforce medium-term growth and contribute towards a competitive UK economy.

The PRA's two secondary objectives are distinct – and therefore merit assessment separately – but they are also complementary. For this reason, this report covers the impacts of the PRA's activities on both the SCGO and the SCO.

The report is structured in the following way:

- Section 2 explains the work that the PRA has done to implement the SCGO in the first year of it coming into force. In December 2023, the Court commissioned the Bank of England's Independent Evaluation Office (IEO) to evaluate whether the PRA is 'set up for success' with respect to its new SCGO. The findings from this review are included in this section. As the PRA has previously described the way the SCO has been implemented in its previous Annual Competition Reports, this section focuses solely on the newly established SCGO.[4]
- Section 3 summarises the PRA's rules and policy initiatives that have advanced the SCGO and SCO in the last reporting year.

[3] The SCGO applies to the PRA's general functions. These are defined in s2J(1) FSMA as:
(a) its function of making rules under this Act (considered as a whole),
(aa) its function of making technical standards in accordance with Chapter 2A of Part 9A,
(b) its function of preparing and issuing codes under this Act (considered as a whole), and
(c) its function of determining the general policy and principles by reference to which it performs particular functions under this Act.

[4] **www.bankofengland.co.uk/prudential-regulation/secondary-competition-objective**.

- The Appendix provides both quantitative and qualitative metrics to help stakeholders understand how the PRA has advanced its SCGO. This list of metrics has been agreed with HMT. It takes into account the stakeholder feedback received through **HMT's Financial Services Regulation: Measuring Success – Call for Proposals**, which was focused exclusively on the newly established SCGO.[5]

[5] The PRA has published a number of quantitative and qualitative metrics to monitor its progress against the SCO in its previous Annual Competition Reports: **www.bankofengland.co.uk/prudential-regulation/secondary-competition-objective**.

2: Implementation of the SCGO

Since the new objective came into force on 29 August 2023, the PRA has taken forward a wide range of initiatives to implement the SCGO. The PRA has engaged with a wide range of stakeholders, including via organising and hosting a major international conference and other communication channels, to help shape and inform its approach.[6] The PRA has made extensive changes to how it operates internally to ensure the SCGO is appropriately considered when the PRA is exercising its general functions.[7] The PRA has also identified tangible actions to help advance the SCGO (discussed further in section 3).

The Bank of England's IEO has evaluated whether the PRA is 'set up for success' with respect to its new SCGO. The findings from their evaluation will inform the PRA's future activity in this area. The **IEO report** states that 'the IEO's work found numerous positives. Nevertheless, the IEO's work suggests that there are some aspects that the PRA should be considering further. This is not surprising given that the PRA is still at an early stage of delivering the new objective'.

The SCGO sits alongside the SCO, which was introduced in 2014. The two secondary objectives have equal legal standing. As the PRA has previously described the way the SCO has been implemented in its past Annual Competition Reports, this section focuses solely on the newly established SCGO.[8]

Building the PRA SCGO approach

The PRA began preparatory work on the links between prudential regulation and competitiveness before the new objective came into force. In September 2022, the PRA published DP4/22 – **The Prudential Regulation Authority's future approach to policy** describing how the PRA intended to approach policymaking under the new responsibilities outlined in the Financial Services and Markets Bill. In October 2022, PRA CEO Sam Woods delivered a **speech** setting out how prudential regulation can

[6] **www.bankofengland.co.uk/events/2023/september/conference-on-the-role-of-financial-regulation-in-international-competitiveness-and-economic-growth**.

[7] The SCGO applies to the PRA's general functions. These are defined in s2J(1) FSMA as:
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(c) its function of determining the general policy and principles by reference to which it performs particular functions under this Act.

[8] **www.bankofengland.co.uk/prudential-regulation/secondary-competition-objective**.

contribute to the competitiveness of the UK as a financial centre and long-term economic growth. In February 2023, Vicky Saporta, the then Executive Director for Prudential Policy, gave a **speech** on what the SCGO would mean for how the PRA makes its rules. Both speeches stressed that the new objective would generate a significant change in how the PRA operates and that the PRA would be proactive in embracing that change.

In July 2023, the PRA published the **PRA's approach to supervision of the banking and insurance sectors**, which provided early guidance on the PRA's interpretation of the new objective and on how the PRA would advance it. In September 2023, soon after the objective came into force, the PRA hosted a **major international conference** on the role of financial regulation in international competitiveness and economic growth, which brought together over 250 participants, including leading UK and international figures from industry, civil society, regulators, and academia. The conference provided an opportunity for the PRA to gather feedback and deepen the debate on how the PRA can advance the SCGO and be accountable against it.[9]

The conference continued the conversation on what the new objective would mean for PRA rulemaking. In a **speech** Vicky Saporta laid out the PRA's early thinking on an approach to the SCGO based on three regulatory foundations.

Conference discussions and feedback helped enrich the framework provided by the foundations, which, along with the transmission channels of competitiveness and growth, became the cornerstone of the PRA's approach to the SCGO. The PRA presented a refined version of the channels and the foundations in CP27/23 – **The Prudential Regulation Authority's approach to policy**, which outlined the PRA's proposed approach to policy under FSMA 2023.

The transmission channels through which the PRA can facilitate competitiveness and growth set out in CP27/23 are:

- **Capital allocation**. The PRA can contribute to productivity in the UK economy by facilitating the efficient allocation of capital by PRA-regulated firms. This capital allocation channel is well aligned with the secondary competition objective given that facilitating competition helps efficient capital allocation.
- **Ability to sell.** The PRA's activities can affect regulated firms' ability to compete in international markets, and thereby their ability to undertake cross-border activities.

[9] A conference summary prepared by the PRA with input from conference speakers is available here: **www.bankofengland.co.uk/-/media/boe/files/events/2023/september/conference-financial-regulation-international-competitiveness-economic-growth-summary.pdf**.

- **Ability to attract.** The PRA's activities can affect how attractive the UK is as a location in which foreign firms choose to locate parts of their business, which can support investment in the UK and economic growth.

The PRA has set out three regulatory foundations which represent the main areas of direct action that the PRA can take to activate the three transmission channels. This approach is informed by conference feedback as well as by the PRA's supervisory experience and research (see Box 1 – Research to inform the SCGO approach). The foundations are:

- **Foundation 1 – Maintaining trust among domestic and foreign firms in the PRA and UK prudential framework.** Trust is one of the most important ingredients for the competitiveness of the financial sector and to underpin economic growth in the medium to long term. The key way through which the PRA maintains trust is by maintaining strong prudential standards. Strong standards, together with healthy competition in the financial sector, and consideration of the UK's long-term output and growth, collectively underpin the success of the UK as an international financial centre. Strong standards also increase the likelihood that the financial sector is able to continue providing vital services to the real economy in times of stress. Trust is also maintained through the appropriate design and calibration of standards and the appropriate implementation of international standards that reduce competitive inequalities between countries, enabling firms to compete on a level playing field.
- **Foundation 2 – Adopting effective regulatory processes and engagement.** The operational costs of doing business in a jurisdiction affect the competitiveness of an economy. Many of these costs are not within the PRA's control, but some are. For example, by providing for the efficient handling of regulatory processes, including authorisations, the PRA can increase the efficiency and reduce the operating costs of firms. Other factors under the PRA's control are the data and information it requests as a regulator and the accessibility of its Rulebook. The PRA seeks to reduce these costs for regulated firms, ensuring data is collected efficiently and proportionately and the Rulebook is accessible and clear.
- **Foundation 3 – Taking a responsive and responsibly open approach to UK risks and opportunities.** As the repeal of assimilated law is commenced under the government's Smarter Regulatory Framework Programme and assimilated law replaced by PRA rules, technical standards, supervisory statements and statements of policy, the PRA can account more effectively for the needs of the UK. This means being able to tailor rules and policies based on UK circumstances and UK data. In addition, the PRA can respond faster to emerging risks and opportunities in the UK financial sector. The PRA aims to

keep under active review innovations and changing risks to make sure they are covered by the regulatory regime, increasing confidence, and supporting growth in areas of innovation, in addition to the use of regulatory tools to encourage innovation safely like sandboxes. The PRA is also open to hosting cross-border business in the UK, provided that it is resilient and appropriately controlled and governed and that the PRA has sufficient visibility of and influence over the necessary supervisory outcomes. Adopting a responsibly open approach attracts foreign capital to the UK and enhances the UK's status as a global financial centre.

In CP27/23, the PRA set out its proposed approach to the new objective and also provided a list of metrics that provide transparency about its work to facilitate competitiveness and growth. This list of metrics has been agreed with HMT. It takes into account the stakeholder feedback received through HMT's **Financial Services Regulation: Measuring Success – Call for Proposals** and focuses on measures that are under the PRA's control. These metrics are presented in the Appendix.[10]

[10] Note that HMT's Measuring Success – Call for Proposals asked feedback on the most appropriate metrics to evaluate the extent to which the regulators (PRA and FCA) have advanced the SCGO. The intention of this work was to support the effective scrutiny of the PRA's efforts to embed and advance its new SCGO. The PRA has published a number of quantitative and qualitative metrics to monitor its progress against the SCO in its previous Annual Competition Reports: **www.bankofengland.co.uk/prudential-regulation/secondary-competition-objective**.

Box 1: Research to inform the SCGO approach

The PRA has undertaken research to inform the development of its approach to the SCGO and as background to conference discussions. PRA staff have published two working papers:

- **How to measure the contribution of prudential regulation to competitiveness and growth**, which set out initial staff perspectives on the design of a set of quantitative information which could be used to show the PRA's progress on the SCGO. The paper presented a set of potential metrics (over which the PRA has direct control), highlighting their respective pros and cons.
- **The links between prudential regulation, competitiveness, and growth**, which set out PRA staff's initial thinking on the interpretation of the new objective, supported by a literature review and internal empirical evidence (as well as highlighting where there are evidence gaps in the literature). The paper reported the extensive body of evidence showing that robust prudential standards are positively associated with economic activity over the medium to long term, highlighting that the link between the competitiveness of a global financial centre and prudential standards is currently not well understood.

In addition, to address some of the gaps identified in the academic literature and existing survey evidence, the PRA launched in 2023 its own survey on the extent to which the PRA's regulatory framework is advancing the new objective and how the PRA can further facilitate its implementation in the future. **Survey results** showed that stakeholders care about the reputation of the prudential regulator in providing a stable and predictable prudential regulatory framework that can withstand episodes of financial stress. Results also highlighted other key drivers of competitiveness and growth that stakeholders consider the PRA could improve on: operational efficiency, accessibility of the Rulebook, and supporting the industry's innovation.

These findings are significant, in particular by providing supporting evidence of the importance of regulatory frameworks fostering innovation, as an important driver of productivity. This led the PRA to commit to run a pilot stakeholder roundtable on innovation in 2024.

Internal changes

The PRA has also undertaken a series of internal changes to embed the SCGO in its ways of working, to ensure that competitiveness and growth issues are routinely and consistently considered when discharging its general functions, which include policymaking activity.[11]

Internal guidance has been updated to ensure that competitiveness and growth issues are identified at early stages of policymaking. The guidance is designed for relevant staff to understand the PRA's interpretation of the SCGO and the approach to use when designing prudential policy.

The guidance also highlights the importance for relevant staff of engaging with the PRA's in-house centre of expertise on competitiveness and growth, whose role is to set best practice, provide support and training to staff to apply best practice and to act as a repository of knowledge and experience on matters relating to the SCGO. In addition to the guidance, mandatory training on the SCGO has been rolled out for all relevant staff working in the PRA's policy directorate. Both the guidance and training include explanations of the PRA analytical framework to analyse SCGO impacts, questions to consider when performing the SCGO assessment of a policy, and case studies.

The SCGO applies to the PRA's general functions rather than to specific firm supervisory decisions;[12] however, internal work led by a cross-PRA SCGO working group is ongoing to make sure that the PRA shares intelligence on the SCGO effectively across its different functions. As it was already required for the SCO, papers to the PRA's policy committees[13] are now required to include an assessment of how a proposed policy would impact the SCGO. More generally, the PRA's policy committees frequently discuss the impact of individual policy initiatives on competitiveness and growth. This process is facilitated by periodic horizon-scanning exercises to identify emerging competitiveness and growth issues well in advance. Externally published consultation papers are also required to include an assessment of how proposed policies would impact the SCGO.[14]

[11] The SCGO applies to the PRA's general functions. These are defined in s2J(1) FSMA as:
(a) its function of making rules under this Act (considered as a whole),
(aa) its function of making technical standards in accordance with Chapter 2A of Part 9A,
(b) its function of preparing and issuing codes under this Act (considered as a whole), and
(c) its function of determining the general policy and principles by reference to which it performs particular functions under this Act.

[12] Firm-specific decisions are made under policies where the SCGO is engaged.

[13] Supervision, Risk and Policy Committee (SRPC) and Prudential Regulation Committee (PRC).

[14] This is a requirement under section 138J(2)(d)(ii) of FSMA.

The steps taken above have provided a solid foundation that has supported the PRA embedding the SCGO in its first year of application. Looking ahead, the PRA will continue working to embed the SCGO, including developing the SCGO forward pipeline of policy initiatives and thinking about how to best engage with stakeholders on SCGO relevant issues. For example, the PRA held a pilot roundtable on 17 July 2024 to gather stakeholder feedback on how the PRA can facilitate innovation safely. The PRA will also continue discharging its obligations to report on the SCGO.

PRA response to the IEO evaluation of SCGO

In December 2023, the Bank of England's Court of Directors asked the Independent Evaluation Office (IEO) to evaluate whether the PRA is 'set up for success' with respect to its new SCGO. The IEO conducted the evaluation between March and April 2024. The IEO findings are published on the same day as this report.[15]

The IEO focused its investigation on three criteria that the PRA would need to have in place in order to be 'set up for success' with respect to the SCGO:

- external clarity;
- internal embedding; and
- oversight and accountability.

Overall, the IEO's work found numerous positives.

- *'The PRA has invested in its approach to the SCGO including:*
  - *hosting a conference to bring together and develop thinking on this topic;*
  - *developing and delivering training for staff in the policy departments; and*
  - *putting in place a process to ensure the objective is considered during policy-making.*
- *[The PRA] has explained in publications how the SCGO has been considered in the flow of new policies.*
- *Additionally, competitiveness and growth issues appear to be receiving airtime, and gaining traction, at all levels of the organisation, including in discussions at the PRA's Supervision, Risk and Policy Committee (SRPC) and Prudential Regulation Committee (PRC).*
- *Key aspects of the SCGO are well understood across policy staff, and the PRA's approach supports the consistent treatment of competitiveness and growth*

[15] **www.bankofengland.co.uk/independent-evaluation-office/ieo-report-july-2024.**

issues in different types of policy initiative, as well as a broadly appropriate approach to prioritisation.

- *The IEO also found evidence of proactivity, particularly in the teams that handle applications from firms seeking PRA approvals and authorisations ('authorisations teams'), who are considering the SCGO when reviewing their policies and procedures with a view to increasing their operational efficiency. The IEO also saw evidence that its recommendations made previously, in the context of the SCO, had been implemented in the PRA's current approach to the SCGO.'*[16]

Alongside these positive findings, the IEO found that there are some aspects that the PRA should be considering further, which is not surprising given that the PRA is still at an early stage of delivering the new objective. It has identified nine recommendations under four broad themes:

1. clarifying the PRA's vision and desired culture for supporting competitiveness and growth across all its activity;
2. ensuring staff across the PRA have a consistent understanding of the new objective, and what they have to do to support it;
3. harnessing intelligence from inside and outside the Bank; and
4. refining transparency and oversight mechanisms to build trust in the PRA's approach.

The PRA welcomes the recommendations of the IEO which will be helpful to further refine its approach to the SCGO in the future. This section sets out the PRA response to each of the recommendations under the four themes.

[16] **www.bankofengland.co.uk/independent-evaluation-office/secondary-competition-objective-evaluation-march-2016**.

Theme 1: Clarifying the PRA's vision and desired culture for supporting competitiveness and growth across all its activity

Recommendation 1: Further clarify the PRA's vision for advancing competitiveness and growth, including how it will affect policymaking priorities

PRA response

The PRA has communicated its strategy for advancing the SCGO through official publications. In particular:

- **Thought leadership.** CP27/23 – **The Prudential Regulation Authority's approach to policy** states that the PRA takes a proactive approach to pursuing the SCGO, identifying opportunities through practical supervisory experience, industry feedback, analysis, and research.
- **Prioritisation.** **PS4/24** on the PRA's approach to rule review clarifies that the SCGO is one of the PRA's prioritisation criteria. This includes considerations on simplifying the prudential framework, improving understanding, and/or easing unnecessary burden on firms.

The PRA sees merit in clarifying outstanding points of ambiguity highlighted by the IEO and it will do so through the Policy Approach policy statement (PS). The PS will explore different elements:

- **Thought leadership**
    - Thought leadership is something the PRA wants to continue pursuing through research, industry engagement, internal analysis and most importantly through international engagement, which is a key way in which the PRA can influence international policymaking.
    - The PRA participates actively in the Basel Committee on Banking Supervision (BCBS) in banking and in the International Association of Insurance Supervisors (IAIS) in insurance.
- **Prioritisation**
    - When the PRA acts on its primary objectives, it also considers the impact on both its secondary objectives. Where there is opportunity to do so, the PRA will prioritise additional work to advance the SCGO, using the framework provided by the transmission channels set out in CP27/23 to identify those opportunities. Given limited resources the PRA will not

review the entire stock of existing rules, but it will prioritise the review of rules based on its established rule review criteria.[17]

- The IEO noted that some industry stakeholders would like to see a 'flagship' policy that would advance the SCGO (akin to the prudential framework that the PRA is creating for smaller and domestically focused banks and building societies – Strong and Simple – which has been designed with a focus on advancing the secondary competition objective). However, the PRA considers that the most appropriate way to advance the SCGO, including the alignment with international standards, will be to consider the SCGO as it takes forward a wide range of initiatives across its general functions – rather than via a single 'flagship' initiative. This does not rule out that the PRA could engage on common issues in a particular area if relevant to the new objective.

The **Regulatory Initiatives Grid** will give the PRA the opportunity to have sight over the pipeline of regulatory initiatives of other UK regulators. This will be a key tool for the PRA to consider what initiatives can advance the SCGO alongside the initiatives of other regulators.

Recommendation 2: Set out the culture and behaviour the PRA wants (and does not want) in its day-to-day activities, to support the SCGO

PRA response

The PRA will ensure that the SCGO is championed throughout the organisation, with the PRA CEO and executive team setting the tone from the top, supported by policy teams.

The PRA will clarify what it will and will not do to support the SCGO through the Policy Approach PS and other engagement mechanisms. The PS will explore:

- **Policy.** The SCGO applies to the PRA's general functions, which excludes supervisory firm-specific decisions.
- **Operational efficiency.** In some cases, determining internal regulatory processes may also represent an exercise of general functions. As a prudential regulator, the PRA maintains and strives for operational efficiency in its processes, technology, and its workforce. This involves streamlining procedures and leveraging technology to enhance effectiveness – noting that efficient regulatory processes benefit both regulated entities and the broader economy by reducing unnecessary burdens and facilitating efficient interactions between financial institutions and the regulator. For example, the PRA aims to continue

[17] Set out here: **www.bankofengland.co.uk/prudential-regulation/publication/2024/february/pra-statement-on-the-review-of-rules-policy-statement**.

improving its efficiency in handling authorisation processes to reduce operating costs of firms.

- **Supervision.** The PRA will reiterate its approach to supervision and ensure that supervisors can continue to engage with firms in an open and constructive manner.[18] The PRA will make clear what supervisors are, and are not, expected to do given the SCGO. While key aspects of the approach to supervision will remain the same, the PRA will make greater use of the current structured industry engagement mechanisms (eg, roundtables) to receive SCGO-related input that can then be fed into the PRA's policy process.

Theme 2: Ensuring staff across the PRA have a consistent understanding of the new objective, and what they have to do to support it

Recommendation 3: Extend a version of training to supervisors and authorisations, making clear what they are (and are not) expected to do to advance the new objective

PRA response

As highlighted by the IEO, the PRA is rolling out new guidance to clarify what supervisors are (and are not) expected to do to advance the new objective.

The PRA will roll out training for current staff in supervision and authorisation teams by H1 2025. The training will be tailored to their responsibilities, with a focus on recognising the cases in which the SCGO applies (those cases where the PRA exercises its general functions).

Recommendation 4: Update training for policy teams and other key contributors to clarify ambiguities and facilitate consistent application of the SCGO

PRA response

The PRA rolled out guidance and mandatory training for all staff working in the PRA's policy directorate. The training includes case studies explaining the scope of the SCGO, how to approach international standards and jurisdiction comparisons.

The PRA will update its training offer for the PRA's policy directorate to clarify outstanding ambiguities and support decision-makers. It will make clear that:

[18] The PRA's approach to supervision of the banking and insurance sectors is set out here: www.bankofengland.co.uk/prudential-regulation/publication/pras-approach-to-supervision-of-the-banking-and-insurance-sectors.

- The PRA can only advance its secondary objectives when advancing its primary objectives.
- Increasing prudential standards or requirements is not the only way in which the PRA can advance its primary objectives. The PRA is expected to ensure, as far as is reasonably possible, that the new or amended policy advances the safety and soundness of regulated firms and (where relevant) contributes to securing an appropriate degree of protection of insurance policyholders. However, that does not mean that the PRA is expected to ensure that the new policy advances the primary objectives more than the previous position.

The PRA will review whether its main decision-making committees (PRC and SRPC) require additional support in considering the SCGO effectively as part of their work. The PRA will survey PRC and SRPC members by the end of 2024 to check if they are appropriately supported.

Theme 3: Harnessing intelligence from inside and outside the Bank

Recommendation 5: A team should champion the SCGO, coordinating and building on existing networks so that intelligence from inside and outside the Bank informs policymaking

PRA response

The PRA puts a lot of value on the input that it gathers from external stakeholders. For this reason, it keeps multiple touchpoints for external engagement as set out in CP27/23 (DPs, CPs, roundtables, practitioner panels). This is complemented by effective aggregation of information internally. For example, the PRA has established new mechanisms to ensure that intelligence gathered by supervision and authorisations teams flows to policy teams.

The PRA will ensure that the team that provides expertise on secondary objectives is re-launched and re-branded as the “Competitiveness, Competition and Quantitative Impact team” to promote its internal visibility across the organisation and further promote its activities so that internal stakeholders are clear on whom to contact for SCGO expertise. However, the PRA will not adopt a model where information on the SCGO is gathered by only one team, but will instead maintain its multiple touchpoints for external engagement, keeping the effectiveness of the operating model under review. The reason for this decision is to help promote a culture where the SCGO is not the responsibility of a single team but is embedded effectively across the whole organisation.

Recommendation 6: Further refine external engagement mechanisms to facilitate effective feedback through the policy cycle and heighten transparency of decision-making

PRA response

As highlighted in the response to recommendation 5, the PRA has extensive mechanisms for industry to provide feedback and inform the PRA's approach.

The PRA is currently refining its ability to gather industry perspectives to inform policymaking. For example, it is building closer relationships with industry bodies and organising roundtables with industry (an example is the pilot roundtable on innovation held on 17 July 2024). Moreover, it has set up a dedicated email address for stakeholders to provide continuous feedback on the existing PRA Rulebook.

The PRA will further increase its use of roundtables to gather inputs from industry on the pipeline of SCGO-related policy initiatives. The annual SCGO report will present some of these industry engagement initiatives to provide transparency. The PRA will also keep engaging with external stakeholders to review whether it should consider additional mechanisms to gather industry feedback.

Recommendation 7: Support further research and use reviews of rules to deepen understanding of how regulation influences competitiveness and growth

PRA response

The PRA carried out in-house research to investigate the **links between prudential regulation, competitiveness and growth**, which was published as part of the **September 2023 conference** on competitiveness and growth.

The PRA agrees that it is important to incentivise research related to competitiveness and growth. To do so the PRA will:

- ring-fence resources to ensure the delivery of high-priority research projects;
- use the Bank's Research Hub to ensure in-house research in this field is advanced;
- use rule review to prioritise the selection of research projects; and
- ensure it is set up to invest in long-term thinking on competitiveness and growth.

The PRA has also recently appointed a new senior advisor who will be dedicated to providing support, challenge and advice on SCGO (and SCO) issues. The new senior advisor brings external experience from academia and regulation. One of their early responsibilities will be to develop proposals for a research network of academics interested in competitiveness and growth.

Theme 4: Refining transparency and oversight mechanisms to build trust in the PRA's approach

Recommendation 8: The PRA should periodically review its external reporting on how it has advanced the SCGO

PRA response

The PRA is committed to being transparent and accountable for its actions to advance its secondary objectives. The set of metrics in the SCGO report has been agreed with HMT and reflects the feedback received through **HM Treasury's Financial Services Regulation: Measuring Success – Call for Proposals**.

As the PRA develops its approach to the SCGO and refines its understanding of the drivers of competitiveness and growth, it will keep the metrics under review to ensure that the PRA's SCGO accountability framework remains recognised as "world-leading", including over the medium to long term. The PRA will also include in future reporting more detail on the steps taken to improve industry engagement.

Recommendation 9: Strengthen governance reporting to ensure PRA leadership has sufficient oversight of how the SCGO is being embedded

PRA response

PRA decision-making committees (PRC and SRPC) play a key leadership role in ensuring the delivery of the SCGO. The PRA introduced mechanisms to ensure papers for decision-making committees give the appropriate prominence to SCGO considerations.

The PRA will report twice a year to PRC on the work that is underway with respect to advancing the SCGO. It will consider ways to monitor whether SCGO issues are appropriately considered in the policymaking process (eg, surveys, internal statistics).

3: Application of the SCGO and SCO in the work of the PRA

Over the last year, the PRA has taken significant steps to change its policy framework with major reforms and to deliver on its secondary objectives.[19] These policy initiatives are grounded in the PRA's statutory objectives and aim to ensure that banks and insurers can continue to operate in a safe and sound way and provide vital services in normal times and during stress, which underpins the international competitiveness of the UK, competition among regulated firms, and the growth of the economy in the medium to long term.[20]

The PRA has advanced the SCGO by implementing necessary prudential reforms to maintain trust in the UK financial system. By maintaining trust, these initiatives seek to maintain a credible regulatory framework, which is a precondition for hosting a global financial centre. An example of this is the work done to develop the Basel 3.1 reforms in a way that aligns with internationally agreed standards.

In line with industry feedback, the PRA has considered how to improve its regulatory processes, including authorisations, and lower regulatory costs for firms. This can improve the ease of doing business in the UK, and therefore its competitiveness and growth in the medium to long term. The PRA responded with several activities aimed at simplifying overly complex requirements and speeding up processes for firms. Examples include the improvement to the operational performance of the authorisation processes,[21] the simplifications and reductions in reporting requirements and approval processes for insurance firms implemented through the Solvency UK reforms, the improvements of authorisations approval times, the introduction of a Wholesale Insurance Accelerated Pathway, and the Banking Data Review, which intends to streamline in the coming years the data collected from banks. Moreover, the PRA has consulted on its approach to delivering a first-rate PRA Rulebook.

[19] The SCGO applies to the PRA's general functions, which include policy-making.

[20] The secondary nature of the objectives means that the PRA cannot advance them if they conflict with its primary objectives, so all initiatives have also continued to advance the PRA's primary objectives regarding the safety and soundness of PRA-authorised persons and, specific to the regulation of insurers, securing an appropriate degree of protection of insurance policyholders.

[21] www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/publication/2023/authorisations-performance-report-q4-202324.pdf.

Further to the end of the implementation period following the UK's withdrawal from the EU, and as the repeal of assimilated law is commenced under the government's Smarter Regulatory Framework Programme, the PRA can account more effectively for the UK's needs, thereby facilitating competitiveness and growth. For example, in implementing the outstanding Basel 3.1 standards, the PRA tailored them to the UK context to facilitate its competitiveness. The PRA also adjusted rules on the structure of bankers' remuneration, including removing the 'bonus cap', which research showed had not achieved its purpose but was identified as a barrier to attracting talent into the UK banking sector.

Under the government's new framework, the PRA also believes it can facilitate competitiveness and growth of the UK by responding faster to emerging risks and opportunities, such as those arising from innovation. One of the initiatives that support innovation safely is the PRA 'Dear CEO' letter on innovations in digital money and money-like instruments, which clarifies how the PRA expects deposit-takers to address the risks arising from these innovations, while supporting it.

Finally, both the financial services sector and the wider economy benefit from the openness of the UK. Attracting foreign capital and businesses to the UK maintains its status as a global financial centre, which is positive for competitiveness and growth. The PRA continues to be actively involved in international standard-setting bodies and supports HMT in its international negotiations on trade and market access. To facilitate continued openness, the PRA finalised its approach to authorising and supervising third-country insurance branches.[22]

There is a complementary relationship between the SCGO and the SCO. Effective competition, by supporting a strong and dynamic financial sector, can reinforce the medium-term growth of the UK economy. For this reason, many of the reforms that advance the SCO also advance the SCGO. For example, the PRA is creating a simpler but equally resilient prudential framework for smaller and domestically focused banks and building societies (Strong and Simple regime), which is primarily about enhancing competition by enabling a dynamic and diverse banking sector in the UK. The regime also aims to support the robustness of these firms whilst making them more competitive and better able to support the economy. To take another example, in addition to advancing the SCGO (its main benefit), the removal of the bonus cap restrictions has a positive impact on competition, as it gives firms more flexibility to share risk with employees, thereby helping firms to explore new opportunities, especially for smaller firms and/or new entrants. In the context of the Solvency UK reforms, the PRA

[22] www.bankofengland.co.uk/prudential-regulation/publication/2024/may/the-pras-approach-to-the-authorisation-and-supervision-of-insurance-branches.

established a 'mobilisation' phase to help new insurers become authorised, and raised the size thresholds at which Solvency UK requirements apply to small insurers, thereby advancing the SCO. Finally, the PRA also raised the size thresholds at which certain remuneration requirements apply to ease the burden on smaller firms. This can help smaller firms and/or new entrants with limited access to external financing options.

This section describes in detail the most material and relevant initiatives that have advanced the SCGO and the SCO between 29 August 2023 and 30 June 2024.

Implementation of the Basel 3.1 standards

In December 2023, the PRA published PS17/23 – **Implementation of the Basel 3.1 standards near-final part 1** on the implementation of policy and rules with respect to the Basel standards that remain to be implemented in the UK, as consulted on under CP16/22 ('Basel 3.1'), for PRA-authorised banks, building societies, PRA-designated investment firms, as well as PRA-approved or PRA-designated financial holding companies or mixed financial holding companies.

Changes to the PRA's accountability framework under FSMA 2023 to introduce the SCGO do not apply to the near-final policies and rules set out in PS17/23.[23] Nevertheless, competitiveness and growth considerations, and alignment with international standards, are factors the PRA must 'have regard' to. These factors, alongside the relative standing of the UK as a place for internationally active firms to operate, were strongly considered by the PRA in developing the near-final policy and rules on the Basel 3.1 standards.

By maintaining confidence in PRA-regulated banks, the Basel 3.1 reforms aim to promote stable and reliable financing to the UK real economy, thereby supporting UK growth. And by ensuring sufficient alignment with internationally agreed standards, the rules play an important role in facilitating competitiveness and growth of the UK economy and promoting confidence in the UK as a global financial centre through consistently high regulatory standards. These standards can facilitate further equivalence-based trade deals with other countries.

However, there are areas in which the PRA considered it appropriate to make adjustments to internationally agreed standards to better tailor its regulation to the UK context and facilitate its competitiveness. In PS17/23,[24] the PRA made further adjustments to Basel standards to provide firms with greater flexibility in their risk

[23] These provisions are disapplied by regulation 4 of the FMSA 2023 (Commencement No. 2 and Transitional Provisions) Regulations 2023: **www.legislation.gov.uk/uksi/2023/936/made**.

[24] Which covered, among other policy areas, market risk and credit valuation adjustment risk (CVA).

calculations, and in turn improve their competitiveness. For example, it lowered the calibration of aspects of the standardised approach to counterparty credit risk (SA-CCR) and credit valuation adjustment risk (CVA) frameworks and introduced more flexible approaches to certain asset classes within the market risk framework. PS17/23 also included adjustments to align market risk capital requirements more closely for sovereign exposures with those of other major jurisdictions and give greater flexibility in transitional provisions for the CVA framework.

In addition to maintaining appropriately high standards and facilitating competitiveness, these reforms will also enhance competition by:

- promoting a more level playing field between firms by reducing the potential competitive advantage that firms using internal model (IM) approaches currently have relative to firms using standardised approaches (SA), and increasing the consistency in risk-weighted assets (RWA) approaches across firms;
- reducing barriers to entry for smaller firms to use IMs for market risk by allowing model permissions to be granted at the trading desk level rather than for the entire trading book portfolio; and
- providing greater proportionality through simpler, less burdensome alternatives for smaller and less complex firms with limited trading activity.

Solvency UK

In February 2024, the PRA published PS2/24 – **Review of Solvency II: Adapting to the UK insurance market** and PS3/24 – **Review of Solvency II: Reporting and disclosure phase 2 near-final**. These reforms built on consultations published by the PRA in June 2023 (CP12/23 – **Review of Solvency II: Adapting to the UK insurance market**) and November 2022 (CP14/22 – **Review of Solvency II: Reporting phase 2**). The reforms follow the government's Solvency II Review, on which the PRA worked closely with HMT, and have been enabled by the government's Smarter Regulatory Framework reforms under FSMA 2023, which will result in the repeal of assimilated law and the restatement of the updated regime in PRA policy material.

The Solvency UK reforms advance the SCGO by simplifying overly complex and detailed requirements, reducing regulatory reporting requirements, and improving flexibility for firms, while maintaining strong prudential standards. They include simplifications and process improvements to the calculation of the transitional measure on technical provisions, a streamlined set of rules for internal models to calculate capital requirements, greater flexibility for insurance groups in the calculation of group solvency requirements, and the removal of certain requirements for branches of international insurers.

In addition, the reforms advance the SCO through measures designed to facilitate entry into the UK insurance market, such as raising the thresholds for small firms to be subject to Solvency II, and a new 'mobilisation' regime to help new insurers seeking authorisation.

In June 2024, the PRA also published PS10/24 – **Review of Solvency II: Reform of the Matching Adjustment.**

By adapting the Matching Adjustments (MA) rules for the features of insurance business in the UK and the financing demands of the wider economy, the reforms advance the SCGO within the legislative framework for the MA set by the government, allowing the life insurance sector to play a bigger role in productive investment in the UK economy. UK firms' competitiveness may be improved through the widened asset and liability eligibility criteria, which could increase expected returns; and UK growth may benefit from investment flexibility reforms contributing to insurers meeting their commitments to the government to invest greater sums in UK productive assets. The PRA has prioritised the policy development and implementation of these MA reforms so that they can take effect on 30 June. The PRA is also launching an insurance sector subject expert group on an MA sandbox to explore the possibilities of further innovation in this area.

Bonus cap

In October 2023, the PRA published, jointly with the FCA, PS9/23 – **Remuneration: Ratio between fixed and variable components of total remuneration**, which removed the limits on the ratio between fixed and variable components of total remuneration ('bonus cap') for banks, building societies, and PRA-designated investment firms.

The bonus cap is not routinely imposed in other leading international financial centres outside the EU and thus it has been identified as a factor in limiting labour mobility. In addition, the PRA found growing evidence that the introduction of a bonus cap resulted in a shift from variable to fixed pay and therefore had undesirable consequences for firm safety and soundness as well as competitiveness. Removing this barrier has given firms greater flexibility to offer reward packages that can attract talent into the UK banking sector, which in turn facilitates competitiveness and growth of the UK economy.

The change also has a positive impact on competition, as it gives firms more flexibility to share risk with employees, thereby helping firms to explore new opportunities, especially for smaller firms and/or new entrants which often have fewer financial resources and more limited access to external financing options.

Strong and Simple regime

Following the UK withdrawal from the EU, the PRA is creating a simpler but equally resilient prudential framework for smaller and domestically focused banks and building societies. In December 2023, the PRA published PS15/23 – **The Strong and Simple Framework: Scope Criteria, Liquidity and Disclosure Requirements** on the scope criteria, liquidity, and disclosure requirements for Small Domestic Deposit Takers (SDTTs).

The main aim of the Strong and Simple regime is to enhance effective competition by enabling a dynamic and diverse banking sector in the UK, without making the sector more fragile, thereby increasing the sector's efficiency and productivity.[25]

The regime is also intended to advance the SCGO by lowering costs for small firms without increasing riskiness, which will enhance their resilience and ability to support the economy, which in turn improves the competitiveness and growth of the UK economy.

Ring-fencing rules

In January 2024, the PRA published the conclusions from its **Review of ring-fencing rules**, which was conducted throughout 2023. While it did not create policy itself, the PRA's rule review considered the PRA's primary objectives and secondary objectives.

The review suggested that there may be some ring-fencing rules that could potentially be improved to help the PRA achieve its secondary objectives, without undermining its primary objectives. Extra flexibility may have benefits for competition (by allowing ring-fenced groups to have arrangements that more closely resemble those of domestic and international groups that are not ring-fenced), and for competitiveness and growth (by allowing groups to resource themselves in a manner which promotes their own growth). However, the review concluded that the majority of rules should be retained and signalled an intention to consult on areas of potential change.

In addition, the PRA has worked through the joint HM Treasury/ Bank of England Ring-fencing Taskforce to help implement the recommendations of the **Independent Review of Ring-fencing and Proprietary Trading** (known as 'the Skeoch Review'). In September 2023, the PRA published CP20/23 – **Ring-fenced bodies: managing risks**

[25] Another PRA initiative aimed at enhancing effective competition by enabling dynamism in the banking sector is **www.bankofengland.co.uk/prudential-regulation/publication/2023/december/remuneration-enhancing-proportionality-for-small-firms-policy-statement**, published in December 2023. PS16/23 makes remuneration requirements for smaller firms more proportionate, giving new entrants in the UK market greater flexibility.

from third-country subsidiaries and branches in tandem with HMT's own consultation[26] to give effect to the recommendations of the Skeoch review.

Solvent exit

In March 2024, the PRA published PS5/24 – **Solvent exit planning for non-systemic banks and building societies, which** outlines the rules and expectations for non-systemic banks and building societies in the UK to prepare, as part of their business-as-usual activities, for an orderly 'solvent exit'. In January 2024, the PRA published CP2/24 – **Solvent exit planning for insurers** on proposed solvent exit planning for insurers.

The PRA considers that these policies advance the SCO by ensuring firms can solvently exit PRA-regulated activity with minimal disruption to the market, which is fundamental to a well-functioning and dynamic market. It allows new entrants in and non-viable firms out more readily, and with a reduced need for PRA intervention. It also provides some assurance to investors that an exit route exists that does not rely on the backstop of an insolvency or resolution process.

In addition, the PRA considers that firms' increased preparedness for solvent exit, and the prevention of disorderly exits, not only facilitates effective competition but also reinforces strong prudential standards, which are key to instilling trust and confidence among investors, firms, and other regulators. Therefore, the PRA considers that the policies will have a positive impact on ensuring that the UK remains competitive and attractive as a place to do business, with a robust, effective, and trusted regulatory regime.

Non-performing exposures

In November 2023, the PRA published PS14/23 – **The non-performing exposures capital deduction**, which removed the Common Equity Tier 1 (CET1) deduction requirement and associated reporting requirements in the PRA Rulebook regarding non-performing exposures (NPE) that are treated as insufficiently covered by firms' accounting provisions.

This initiative advances the SCGO because the removal of the NPE deduction, which was on-shored from the EU Capital Requirements Regulation, and the use of a judgement-led approach, enhances the relative standing of the UK and its

[26] **www.gov.uk/government/consultations/a-smarter-ring-fencing-regime-consultation-on-near-term-reforms**.

competitiveness by reducing all firms' costs of monitoring, compliance, and data gathering in relation to the NPE deduction requirement.

The initiative also advances the SCO because removing the NPE deduction requirement has a relatively greater impact on reducing reporting costs for smaller firms, which helps to facilitate competition and unlock growth.

Artificial Intelligence and Machine Learning

In October 2023, the Bank, the PRA, and the FCA jointly published FS2/23 – **Artificial intelligence and machine learning,** which summarises the responses to DP5/22 – **Artificial intelligence and machine learning**.

DP5/22 was published to further the supervisory authorities' understanding and to deepen dialogue on how AI may affect their respective objectives. FS2/23 summarises the responses to DP5/22, including responses on the potential benefits and risks of AI and on potential barriers to adoption.

A proportionate approach is critical to supporting the safe and responsible adoption of AI and other technologies across UK financial services. This initiative advances the SCGO because it is aimed at facilitating innovation safely, which is one of the main ways in which the PRA can facilitate the competitiveness and growth of the UK economy and financial sector.

A proportionate regulatory approach to the adoption of innovations like AI also advances the SCO as these technologies could be beneficial to competition. However, they also present risks. The benefits to competition could come from the enhanced ease of access and use of information through AI, while risks could arise when AI is used to increase barriers to entry or leverage dominant positions. The PRA wishes to avoid introducing unnecessarily complex or costly rules that can act as a barrier to entry, especially for non-systemic firms, or unintentionally favour larger firms with greater resources to manage compliance with complex rulebooks.

Innovation in digital money and money-like instruments

In November 2023, the PRA, jointly with the Bank and FCA, set out a cross-authority roadmap on innovation in payments, money, and money-like instruments. The roadmap explains the current landscape, and how UK authorities' current and proposed regulatory regimes will interact. It is complemented by the **Bank's proposed regime for systemic payment systems using stablecoins** and a PRA **Dear CEO letter** on innovations in the use by deposit-takers of deposits, e-money, and regulated stablecoins.

The letter aims to provide clarity on the ways in which the PRA expects deposit-takers to address the risks arising from these innovations while supporting innovation. Supporting innovation safely and proportionately is a key way in which the PRA can facilitate competitiveness and growth.

Providing clarity around innovation-related risks and the regulator's expectations also helps level the playing field, which in turn enhances effective competition.

Leverage ratio treatment of omnibus account reserves

In December 2023, the PRA published CP28/23 – **Leverage ratio treatment of omnibus account reserves and minor amendments to the leverage ratio framework,** which proposes to exclude reserves held on omnibus accounts[27] from the leverage ratio, subject to specific conditions. Omnibus account reserves being treated consistently with traditional individually held reserves under the leverage ratio may facilitate the adoption of the omnibus accounts innovation.

The PRA considers that the proposals advance the SCGO since they facilitate firms' access to the benefits that omnibus accounts are expected to deliver, which include reduced credit risk and improved flexibility to manage intraday liquidity. This can improve the attractiveness of the UK regulatory framework.

The PRA considers that the proposals also advance the SCO as the adoption of the omnibus account could enhance effective competition among wholesale payment systems, with downstream benefits for firms that use those services (and potentially their customers).

Operational performance of authorisations

By providing for the efficient handling of regulatory processes, including authorisations, the PRA can increase the efficiency and reduce the operating costs of firms. Operational performance has therefore been a major area of focus for the PRA and has already resulted in improvements that can be seen in the metrics published. The latest **Prudential Regulation Authority Authorisations Performance Report 2023/24 – Q4** shows that compliance with statutory timelines in the period between December 2023 and February 2024 is 98% or above in all areas of authorisations.

The PRA Authorisations Performance Report also includes enhanced authorisations metrics that demonstrate the PRA's commitment to transparency and accountability

[27] Omnibus accounts are an emerging type of account at central banks where the central bank reserves of several participants are co-mingled in a single account. These accounts are expected to bring a range of wholesale settlement benefits.

and recognise the contribution made by operational effectiveness to UK competitiveness. The PRA increased the frequency of reporting, provided additional information on the time taken to determine cases, and broke down metrics by type of firm. Due to the relevance of the efficiency of authorisations to the SCGO, some key authorisations metrics are also reported in the Appendix of this report.

Wholesale Insurance Accelerated Pathway

The PRA's **New Insurer Start-up Unit** webpage has been updated to include information on the **Wholesale Insurance Accelerated Authorisation Pathway**. This programme, developed jointly between the PRA and FCA, advances the SCGO by simplifying processes and providing an accelerated route to authorisation for a sub-set of London market wholesale applicants. The Pathway, which applies exclusively to the wholesale insurance business, is designed to address the speed of the authorisation process, the level of business plan review, and the documentation required at the point of engagement with the regulators.[28]

Banking Data Review (BDR)

The **BDR** was launched to modernise the regulatory banking data landscape to ensure the PRA collects the data it needs to fulfil its mission at the lowest possible cost to industry. The BDR is a multi-year project and is intended to streamline the data collected from banks in the coming years. This initiative advances the SCGO by lowering the cost for industry and improving the operational efficiency of the UK regulatory framework.

The BDR is part of the Bank of England's **Transforming Data Collection (TDC)** programme, which is primarily focused on how data is collected in the Bank of England (jointly with the FCA).

Accessibility of the Rulebook

The PRA is using the ongoing repeal and replacement of assimilated law in the financial services sphere as an opportunity to bring its rules and policies together on one user-friendly website, streamline materials, and adopt a coherent approach to the structure and language used. The PRA has consulted on its approach to delivering a first-rate PRA Rulebook, which was set out in CP27/23 – **The Prudential Regulation Authority's approach to policy** in December 2023.

[28] The process has been set up, but it has not yet been tested as no NISU firm has met the current criteria.

The new version of the **Rulebook website** was launched in April 2024, and features improvements including links to key policy documents. The PRA will continue working to reform the Rulebook to further improve its accessibility, efficiency, usability, and clarity to make it easier for stakeholders to engage with regulatory material.

The PRA's intention is for the Rulebook website to allow users to search both rules and guidance in one place, with a filter to choose results in either category. In addition, the approach is to implement enhanced time-travel functionality, so that users can see (i) past, present and future versions of rules; (ii) the legal instruments that changed each rule; and (iii) related regulatory material.

The PRA considers that these changes will improve the accessibility of the Rulebook, having received feedback from stakeholders that this is an area that needed to be improved.[29] A more accessible Rulebook can improve engagement and enhance the UK's attractiveness as a place to do business.

International engagement

Responsible openness of a competitive financial sector and economy is a key element that the PRA has worked to advance. The PRA continues to be actively involved in international standard-setting bodies and supports HMT in its international negotiations on trade and market access.

Taking part in the work of international standard-setting bodies enables the PRA to take an active role in shaping international prudential standards. Besides enhancing global financial stability, a global Rulebook also helps internationally active firms reduce the expense of having to adapt to a patchwork of local standards. During 2023/24, the PRA attended all meetings of the Basel Committee on Banking Supervision (BCBS) and International Association of Insurance Supervisors (IAIS). Over this period, the BCBS and IAIS covered a wide range of issues, as outlined in each group's press releases.[30] Senior PRA officials also engaged in other international fora, such as the Financial Stability Board (FSB), and in regular bilateral exchanges and regulatory dialogues with their counterparts in other jurisdictions.

[29] In 2023, the PRA conducted a pilot survey to gather feedback on the extent to which the PRA's regulatory framework is advancing the new objective and how the PRA can further facilitate its implementation in the future. Results highlighted that half of all respondents believed that the PRA regulatory framework is not accessible and user-friendly. **www.bankofengland.co.uk/-/media/boe/files/events/2023/september/pilot-survey-secondary-competitiveness-and-growth-objective.**

[30] **www.bis.org/press/pressrels.htm** and **www.iaisweb.org/category/press-releases**.

Collaboration with HMT on international matters

As set out in the PRA's **PRC recommendation letter response to the Chancellor**, the PRA, together with the Bank, provides technical assistance to HMT on the financial services elements of the Free Trade Agreements (FTAs) the UK is pursuing. FTAs advance the SCGO by increasing the responsible openness of the UK. The PRA has engaged closely with HMT in support of the new FTAs negotiated with Australia and New Zealand, as well as on the UK's recent accession to the **Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)**. The PRA also continues to support HMT on a range of live negotiations.

The PRA also actively participated in negotiations with Switzerland to develop and establish new deference arrangements under the **Berne Financial Services Agreement**. It continues to work with HMT on the implementation of the agreement.

Third-country branches and subsidiaries

It is the PRA's view that, subject to certain safeguards, the ability of financial services firms to branch into the UK contributes to the international competitiveness and growth of its financial sector and economy. Where the Threshold Conditions are met, and where the authorisation of an international bank or insurer is consistent with the PRA's primary objectives on an ongoing basis, the PRA is open to the activity of international banks and insurers operating in the UK via a branch and recognises the benefits that these international firms can bring to the UK economy.

The presence of third-country branches and subsidiaries in the UK also facilitates more effective competition. It is, however, important for the PRA to mitigate the risks from branches of foreign firms taking advantage of comparatively lower requirements in their own jurisdictions to outcompete UK firms. The PRA recognises that openness must be accompanied by financial and operational resilience to support sustainable economic growth and the PRA's objectives.

In May 2024, the PRA published a PS8/24 – **The PRA's approach to the authorisation and supervision of insurance branches** to consolidate and formalise the PRA's existing approach to authorising and supervising third-country insurance branches, building on CP21/23 – **The PRA's approach to the authorisation and supervision of insurance branches** published in October 2023. The policy initiative may encourage international insurers to apply to operate in the UK through a branch, given that applications will be assessed against a clear and consistent set of criteria.

The PRA enters into Memoranda of Understanding (MOUs) with third-country (and sub-national) regulatory authorities to facilitate supervisory cooperation. A prerequisite for these supervisory cooperation MOUs is an assessment of the other party's legal protections for confidential information. MOUs accordingly allow for the transfer of supervisory relevant information for third-country branches and subsidiaries based in the UK as well as UK branches and subsidiaries in other countries. The PRA currently has 79 MOUs across 50 countries including those with EU institutions (ECB, EBA, EIOPA) as well as being a signatory to the IAIS multilateral MOU for insurance. The PRA continues to make progress in seeking to establish new MOUs, having concluded a number of assessments of prospective counterparties' legal protections for confidential information. The PRA also cooperates closely on a bilateral basis with supervisors in other jurisdictions and attaches great importance to these relationships. The PRA's supervisory engagement involves participation in supervisory colleges and establishing co-operation agreements which facilitate day-to-day supervision.

The PRA authorised 135 third-country branches of EU banks and insurers that had previously entered into the Temporary Permissions Regime, providing confidence in the safety of these firms while maintaining the UK's status as an open jurisdiction to branches. The PRA continues to receive and approve regular applications from other foreign firms seeking to establish branches or subsidiaries in the UK.

Appendix: Accountability of the PRA for delivery of the SCGO

The PRA is committed to being transparent and accountable for its actions to advance its secondary objectives, and reporting against appropriately selected metrics is an important part of this.

This section reports quantitative and qualitative metrics that are helpful to monitor the performance of the PRA against its SCGO. Metrics are grouped under the three regulatory foundations described in section 2. It is important to bear in mind that the metrics, while covering a very important part of the PRA's performance under the SCGO, do not cover all of the PRA's achievements. For example, the metrics in this Appendix do not measure the SCGO-related work done on the adjustments to the Basel 3.1 standards or the withdrawal of the bonus cap.

The PRA has outlined its approach to accountability in relation to the SCGO in CP27/23 – **The Prudential Regulation Authority's approach to policy** and presented a list of SCGO metrics in Appendix 2 of the CP,[31] including metrics that have been agreed with HMT. It takes into account the stakeholder feedback received through **HMT's Financial Services Regulation: Measuring Success – Call for Proposals**, which was focused exclusively on the newly established SCGO. Therefore, this section focuses solely on SCGO and not the SCO.[32]

The table below summarises the quantitative element of all metrics presented in this Appendix. The rest of the Appendix sets out a comprehensive qualitative description of each metric, which can also be accessed by clicking on the metrics titles in the table below.

[31] A small number of metrics listed in Appendix 2 are not available for inclusion in this first report, in particular 'Trust of firms in the prudential framework' and 'Satisfaction on proportionality, effectiveness, and how regulator actions affect attractiveness of UK'. New questions will be added to the PRA's annual firm feedback survey in 2024. The findings based on the answers to these questions will feature in the Annual Competitiveness and Growth Report in 2025. Additionally, the PRA will carry out an 'Assessment of changes in PRA Rulebook complexity over time' at a future date.

[32] The PRA has published a number of quantitative and qualitative metrics to monitor its progress against the SCO in its previous Annual Competition Reports: **www.bankofengland.co.uk/prudential-regulation/secondary-competition-objective**.

Foundation 1: Maintaining trust among domestic and foreign firms in the PRA and UK prudential framework			
Outcome	**Metric**	**Aims**	**Result**
Appropriately calibrated standards and alignment with international standards	**Financial Sector Assessment Programme (FSAP) assessment**	PRA prudential framework is seen as aligned with internationally agreed standards	The FSAP assessment undertaken by the IMF in 2022 outlines that the UK regulatory framework meets international agreed standards. The IMF recommended that the UK continues to be aligned in the future. The assessment also highlights that the detailed assessment of the IAIS Insurance Core Principles (ICPs) shows that 17 ICPs were found to have been observed, six largely observed, and only one partly observed.
	Regulatory Consistency Assessment Programme (RCAP) assessment	PRA prudential framework is aligned with the minimum regulatory standards agreed by the Basel Committee on Banking Standards (BCBS) standards	According to the BCBS, the UK has adopted **23 out of 31** Basel III standards as of 2023 Q3. The latest RCAP jurisdictional assessments on compliance for the UK were undertaken when the UK was an EU member state (and is therefore out of date). The compliance of the UK regulatory framework with Basel standards will be assessed again in the future.
	Banking resilience • CET1 Capital Ratios • Liquidity Coverage Ratio (LCR)	The UK banking system is well capitalised and has high levels of liquidity	In December 2023, the Financial Policy Committee (FPC) assessed that the UK banking system is **well capitalised and has high levels of liquidity.** The Financial Stability Report (FSR)[33] shows that, as of 2023 Q3, CET1 Capital Ratios are: • **14.8%** for major UK banks • **18.5%** for small and medium-sized banks

	• Net Stable Funding Ratio (NSFR)		The FSR shows that, as of 2023 Q3, the LCR is: • **149%** for major UK banks • **260%** for small and medium-sized banks The FSR shows that, as of 2023 Q1, the NSFR is: • **137%** for major UK banks
	Insurance Resilience • SCR Coverage Ratio (50th percentile) • Tier 1 Capital (as % of total capital)	The UK insurance sector is well capitalised	Insurance aggregate data quarterly reports show that, as of 2023 Q3, the SCR is: • **211.6%** for the life insurance sector • **223.5%** for the non-life insurance sector Insurance aggregate data quarterly reports show that, as of 2023 Q3, Tier 1 Capital as a % of total capital is: • **92.8%** for the life insurance sector • **86.8%** for the non-life insurance sector
	Qualitative summary of impacts of cost-benefit analyses (CBAs)	The PRA is undertaking high-quality CBAs to inform its policy initiatives[34]	During March 2023 - February 2024, the PRA: • published **19** CBAs, of which • **100%** included qualitative assessment of the costs and benefits, and • **40%** included a quantification of benefits and/or costs

[33] Produced by the FPC.

[34] Some policies are exempt from the formal CBA mandate under FSMA, section138J(6) (eg, PRA levies) or cover topics on the PRA's approaches to policy, rule review and enforcement, which do not directly deal with rules advancing the PRA's objectives.

<table>
<tr><th colspan="4">Foundation 2: Adopting effective regulatory processes and engagement</th></tr>
<tr><th>Outcome</th><th>Metric</th><th>Aim</th><th>Result</th></tr>
<tr>
<td>PRA operational efficiency</td>
<td>Time taken to complete authorisations

for new firms, variation of permissions, change in control, senior managers

Other metrics monitored in the PRA Authorisations Report
Number of refusals and withdrawals for new firms authorisations and senior managers
Number of new and cancelled firms from UK market
Number of new domestic vs overseas firms authorised</td>
<td>> 98% of cases closed within relevant statutory service standard[35]</td>
<td>
<table>
<tr><th>Authorisations (Mar 2023 – Feb 2024)</th><th>Number of cases</th><th>% cases closed within statutory service</th><th>No. of refusals</th><th>No. of withdrawals</th></tr>
<tr><td>Authorisations of new firms</td><td>15</td><td>93%</td><td>0</td><td>4</td></tr>
<tr><td>Variation of permission</td><td>153</td><td>100%</td><td>-</td><td>-</td></tr>
<tr><td>Change in control</td><td>68</td><td>100%</td><td>-</td><td>-</td></tr>
<tr><td>Senior managers</td><td>1,225</td><td>95%</td><td>0</td><td>71</td></tr>
</table>
New entrants to UK market: 11
Exits from the UK market: 86
PRA headcount:
Prudential Policy: 270
Insurance supervision: 305
Authorisations, RegTech and International Supervision: 283
UK Deposit Takers Supervision: 280
Supervisory Risk Specialists: 231
PRA Strategy, Risk & Operations: 122
Enforcement: 28
</td>
</tr>
</table>

	PRA FTE headcount, by area:		
Accessibility and efficiency of the PRA Rulebook	**Satisfaction of firms on accessibility of prudential policy, rules, and requirements** (PRA annual firm feedback survey):[36] • 'The relevant prudential rules that apply to my firm are accessible and clear' • 'The PRA is clear in its reasons for new and revised policy'	Firms are largely satisfied with the accessibility of the PRA Rulebook	In the 2023 firm feedback survey: • **87.7%** of respondents either agreed, or strongly agreed, that the rules that apply to their firm are accessible and clear. • **89.3%** of respondents either agreed, or strongly agreed, that the PRA is clear in its reasons for new and revised policy.
	'Dashboard' showing at which stage of	Biannual publication of PRA's regulatory pipeline	This information can be found in the **Regulatory Initiatives Forum Grid** (the 'Grid').

[35] The PRA aims to close at least 98% within the relevant statutory service standard. It would not be sensible to have a 100% aim, as there are some cases which are so complex that it would not be helpful to enforce the statutory timeline. The PRA does not set aims for other measures related to authorisations such as the number of determinations, refusals, withdrawals, and entry/exit from the UK market, given that these are not within the PRA's control and are highly dependent on external factors.

[36] The PRA runs an annual firm feedback survey on the effectiveness and quality of the supervisory framework and approach.

<table>
<tr><td></td><td>consultation or implementation initiatives are at</td><td></td><td></td></tr>
<tr><td rowspan="2">Efficiency of regulatory requests</td><td>Data streamlined as part of PRA initiatives</td><td>Reduction in low-value reporting burden over time[37]</td><td>PRA Solvency II reforms (PS2/24) will achieve:
Net removal of 107 templates (representing one third of existing number of required templates)</td></tr>
<tr><td>Regular reporting data requests
Number of templates collected per year
Average time given to firms to respond</td><td>Modernise regulatory reporting to reduce unnecessary burden on firms, by, eg.:
Better alignment of data collections with the needs of day-to-day PRA activities
Better integration and streamlining of</td><td><table>
<tr><th>Annual regular data reporting requests (as of 31 December 2023)</th><th>Number of templates[38]</th><th>Weighted average time to respond (business days)[39]</th><th>95^{th} percentile time to respond (business days)</th></tr>
<tr><td>Deposit takers[40]</td><td>1044</td><td>26</td><td>45</td></tr>
<tr><td>Insurers</td><td>331</td><td>66</td><td>100</td></tr>
<tr><td>Credit unions</td><td>15</td><td>61</td><td>182</td></tr>
</table></td></tr>
</table>

[37] This is the first time that the PRA reports on many of these metrics, therefore there is no past benchmark. As the PRA continues to produce these metrics in future reports, it will be able to compare the results with previous metrics and provide additional insights on how it has advanced the SCGO.

[38] Considering the requirements in PRA Rulebook as of 31 December 2023.

[39] The PRA Rulebook sets fixed submission timelines, depending on the resources required to provide the template requested. Numbers are rounded to the nearest integer.

[40] This corresponds to credit institutions and designated investment entities.

<table>
<tr>
<td rowspan="2"></td>
<td>95th percentile time given to firms to respond</td>
<td rowspan="2">PRA data collection, including looking to cut unused collections, standardising definitions across collections, removing duplicative data requests.
Ensuring the PRA has the data needed to carry out any future policymaking responsibilities</td>
<td></td>
</tr>
<tr>
<td>Ad hoc data requests
Number of requests
Average time given to firms to respond</td>
<td>
<table>
<tr><th>Ad hoc data requests (Mar 2023-Feb 2024)</th><th>Number of requests</th><th>Weighted average time to respond (business days)[41]</th></tr>
<tr><td>Deposit takers[42]</td><td>24</td><td>47</td></tr>
<tr><td>Insurers</td><td>12</td><td>39</td></tr>
<tr><td>Both</td><td>4</td><td>72</td></tr>
</table>
</td>
</tr>
<tr>
<td>Effective stakeholder engagement with firms</td>
<td>Satisfaction of firms based on interactions with the regulators

(PRA annual firm feedback survey):</td>
<td>Firms are broadly satisfied with their interactions with the PRA</td>
<td>In the 2023 firm feedback survey:
94.2% of respondents either agreed, or strongly agreed, that their firm has an effective relationship with the PRA.</td>
</tr>
</table>

[41] The PRA does not currently record the exact number of days given for ad-hoc requests, but it records the number of requests that fall within given time periods. The PRA is exploring recording more granular time metrics in the future. Therefore, the weighted average is calculated taking the mid-point of each time period. Numbers are rounded to the nearest integer.

[42] This corresponds to credit institutions and designated investment firms.

	• 'My firm has an effective relationship with the PRA.' • 'My firm has adequate access to the right people at the PRA.' • 'Communication from PRA supervisors is clear, timely and appropriate for my firm.'		• **93.5%** of respondents either agreed, or strongly agreed, that their firm has adequate access to the right people at the PRA. • **90.2%** of respondents either agreed, or strongly agreed, that communication from PRA supervisors is clear, timely and appropriate for their firm.

Foundation 3: taking a responsive and responsibly open approach to UK risks and opportunities			
Outcome	Metric	Aim	Result
Innovation	**Number of new regulatory initiatives that are designed to facilitate innovation**	PRA prudential framework facilitates safe innovation	The PRA has published two regulatory initiatives designed to facilitate innovation in the last year: • Joint feedback statement to a discussion paper on artificial intelligence and machine learning in financial services • 'Dear CEO' letter on innovations in the use by deposit-takers of deposits, e-money, and regulated stablecoins
Responsible openness	**UK banks' exposure to foreign jurisdictions**	PRA prudential framework is responsibly open to cross-border business	On average over 2023: • **45.9%** of UK banks' total assets are held by non-UK households, businesses, and other monetary and financial institutions • **38.8%** of total liabilities held by UK banks are from non-UK households, non-UK businesses, and other non-UK MFIs

Foundation 1 – Maintaining trust among domestic and foreign firms in the PRA and UK prudential framework

Metrics under foundation 1 measure whether standards are appropriately calibrated, and their degree of alignment with international standards.

Appropriately calibrated standards and alignment with international standards[43]

Financial Sector Assessment Programme (FSAP) assessment

The International Monetary Fund (IMF) delivered its **five-yearly FSAP of the UK** in February 2022. The PRA responded to the IMF's assessment in its **2022 Annual Report**. The assessment covers a range of sectors and responsibilities falling under the PRA and Bank's remit, including whether the PRA's prudential framework is seen as aligned with internationally agreed standards. The PRA aims to have a prudential framework that is seen as aligned with internationally agreed standards.

The FSAP assessment outlines that the UK regulatory framework meets internationally agreed standards. The assessment recognises that in the banking sector 'the post-Brexit challenge will include streamlining the prudential framework while continuing to meet internationally agreed standards'. The assessment also includes a 'Detailed assessment of the IAIS Insurance Core Principles (ICPs)'. The outcome of this detailed assessment is that 'the United Kingdom has a highly developed framework for insurance supervision implemented by highly sophisticated regulators': 17 ICPs were found to have been observed, six largely observed, and only one partly observed. Also, in the insurance sector, the IMF recommends that, post-Brexit, the UK should not reduce these high standards.

The PRA is implementing, where it deems appropriate, the recommendations made by the IMF as part of its review. Any actions taken by the PRA in response will be assessed as part of the IMF's next review of the UK.

[43] The degree of alignment with international standards can be tracked through the internationally recognised ratings of the UK in the IMF FSAP and the BCBS RCAP assessments. However, it should be noted that these ratings may not be directly comparable to those of other jurisdictions, or otherwise not capture UK domestic idiosyncrasies.

Regulatory Consistency Assessment Programme (RCAP) assessment

The RCAP monitors and assesses the timeliness and consistency of the adoption of Basel III standards across jurisdictions. The PRA aims to ensure that its prudential framework is aligned with the minimum regulatory standards agreed by the Basel Committee on Banking Supervision (BCBS).

The BCBS last conducted periodic monitoring of the timeliness of implementation in 2023 Q3, which was based on information from member jurisdictions. At that point, the UK had fully adopted 23 out of 31 standards, and draft regulations have since been published for the remaining standards. This is consistent with other comparable jurisdictions such as the EU and US.[44] The BCBS evaluates the consistency and completeness of adopted standards through jurisdictional assessments. The latest RCAP jurisdictional assessments on compliance for the UK were undertaken when the UK was an EU member state. That assessment is therefore now out of date. The compliance of the UK regulatory framework with Basel standards will be assessed again in the future.

Banking resilience

The PRA maintains strong prudential standards to help ensure that the UK banking system is well capitalised and has high levels of liquidity to withstand future financial instabilities. The resilience of the UK banking sector is a key component of the trust that domestic and foreign firms have in the PRA and UK prudential framework.

The table below reports information on banking resilience sourced from the most recent **Financial Stability Reports** (FSR). The FSR sets outs the Financial Policy Committee's (FPC) view on the stability of the UK financial system. The PRA aims to ensure that the UK banking system is well capitalised and has high levels of liquidity.

In **December 2023**, the FPC assessed that the UK banking system is well capitalised, with aggregate CET1 capital ratios at 14.8% for major UK banks and 18.5% for small and medium-sized UK banks, as of 2023 Q3. The FPC also assessed that the UK banking system has high levels of liquidity, with the aggregate Liquidity Coverage Ratio (LCR) for major UK banks, and small and medium-sized UK banks at 149% and 260%, respectively, as of 2023 Q3. As of 2023 Q1, the Net Stable Funding Ratio (NSFR) for

[44] As of 2023 Q3, the EU had fully adopted 22 out of 31 standards and the US had fully adopted 21 out of 28 applicable standards.

major UK banks measured 137%. Please refer to relevant chapters on UK banking sector resilience in the FSR for further detail.

Table 1: Banking resilience

	Major UK banks			Small and medium-sized UK banks		
	2023 Q3	2023 Q1	2022 Q3	2023 Q3	2023 Q1	2022 Q3
Common Equity Tier 1 (CET1) Capital Ratios (%)	14.8	14.6	14.2	18.5	18.5	18.3
Liquidity Coverage Ratio (LCR) (%)	149	146	144	260	251	230
Net Stable Funding Ratio (NSFR) (%)	-	137	137	-	-	-

Insurance Resilience

Similarly, the PRA maintains strong prudential standards in the UK insurance sector to help ensure its resilience and thereby maintain trust in the PRA and UK prudential framework. The PRA aims to ensure that the UK life and non-life insurance sectors are well capitalised, as measured by aggregate Solvency Capital Requirement (SCR) coverage ratios and the percentage of total capital that is Tier 1.

The table below reports information on insurance resilience sourced from the Bank and the PRA's **Insurance aggregate data quarterly report**. As of 2023 Q3, the average SCR coverage ratios in the life and non-life insurance sectors measured 211.6% and 223.5%, respectively. In the same period, Tier 1 capital formed 92.8% and 86.8% of total capital in the life and non-life insurance sectors, respectively.

Table 2: Insurance resilience

	Life Insurance sector			Non-life Insurance sector		
	2023 Q3	2023 Q1	2022 Q3	2023 Q3	2023 Q1	2022 Q3
Solvency Capital Requirement (SCR) coverage ratio (50^{th} percentile) (%)	211.6	207.8	202.0	223.5	210.2	204.0
Tier 1 Capital (as % of total capital)	92.8	91.5	92.5	86.8	85.3	85.0

Qualitative summary of impacts of cost-benefit analyses (CBAs)

The PRA aims to undertake high-quality CBAs to inform its policy initiatives. Between March 2023 and February 2024 (last financial year), the PRA published **23 CPs**, of which **19** involved proposed changes to rulemaking and therefore required analysis of the costs and benefits as per FSMA, section 138J(2).[45]

All the CBAs published in the 2023/24 financial year included a qualitative analysis of the costs together with the benefits that are expected to arise under the proposed rules. In addition, in 40% of cases, where it was reasonable and practicable to do so, CBAs included quantitative estimates of costs and/or benefits. Of this latter group, six CBAs included a quantification of both costs and benefits. They are reported in the table below to illustrate the impacts of a few of the PRA's most notable policies of the latest financial year.

[45] The four CPs with no CBAs dealt with policy measures that were explicitly exempt from the formal CBA mandate under FSMA, section 138J(6) (eg, PRA levies) or covered topics on the PRA's approaches to policy, rule review and enforcement, which did not directly deal with rules advancing the PRA's objectives.

Table 3: Summary of six CBAs published in the 2023/24 financial year

	Key benefits	Key costs
Solvent exit planning in the banking sector	• Increased likelihood of a successful solvent exit (studies show that firms incur on average a loss of 20% of total asset value from failure and insolvency); • More efficient and less costly exits for firms; • Reduced disruption to the wider market; • Potential to reduce costs of exit being borne by industry through the Financial Services Compensation Scheme (FSCS); • A more dynamic and competitive market.	• Estimated one-off costs for the banking sector: £4-£10m. • Estimated ongoing cost per year: £2-£4m.
Solvency II reforms in the insurance sector	• Offering firms greater flexibility to meet regulatory requirements; • Making regulatory requirements more appropriate for the risks posed to the PRA's objectives; • Simplifying compliance with certain regulatory requirements; • Compliance benefits through:	• The PRA considers that there will be some implementation compliance costs. However, the PRA expects that there would be an ongoing saving in costs in the longer term. In addition, in many cases (eg, TMTP, thresholds, mobilisation), firms have the option to continue existing practices.

	○ proposed removal of the FRR[46] test for the TMTP[47] calculation; ○ allowing the group SCR[48] calculation to recognise some of the diversification benefits between Method 2 entities.	
FSCS – Management Expenses Levy Limit (MELL) 2024/25	• Direct benefit to consumers from the FSCS compensation is forecast to be £457 million in 2024/25; • Timely compensation in the event of the failure of a deposit-taker helps ensure consumer confidence in the financial system; • Increased FSCS control over the claims handling process; • The internalising of claims handling will lead to future increases in productivity and efficiency, providing opportunities for cost-saving in future budgets (FSCS forecasts that operational costs could fall by at least £5 million in 2025/26).	• One-off immediate direct cost to firms would be equal to the budget of £103.1 million minus any underspend from 2023/24. • Management expenses are charged to firms and may be passed on to consumers in the form of higher prices.
Operational resilience: Critical third parties to the UK financial sector	• Reduction in the likelihood of disruption at CTPs negatively impacting financial stability through improved operational resilience at CTPs;	• Estimated one-off and annual ongoing compliance costs of approximately £660,000-£930,000 (one-off) and £500,000 (annual ongoing), respectively. per CTP.

[46] Financial resource requirements.

[47] Transitional measure on technical provisions.

[48] Solvency capital requirement.

	• Improved ability for the financial sector to work collaboratively with CTPs to manage the risks posed by these disruptions; • Using the estimate of the potential cost of CTP disruption to the financial sector of £947,000,000, the proposals would be net beneficial if they led to the avoidance of one major disruption every 27 years. Separately, looking at less severe operational incidents, the proposals would be net beneficial if it led to the avoidance of six CTP incidents per year.	
Identification and management of step-in risk, shadow banking entities and groups of connected clients	The key benefits of the step-in risk assessment include: • Reducing the probability of step-in risk events materialising in the future. • Estimated benefits of implementing the step-in risk assessment are around £224 million per firm for small firms and £484 million per firm for large firms.	The key costs of the step-in risk assessment include: • On average, the estimated one-off costs to the industry: £0.7 million. • On average, estimated ongoing costs to industry: £2.8 million.
Review of Solvency II: Reform of the matching adjustment	CP19/23 includes a detailed CBA which assesses the specific proposals as part of overall reforms to matching adjustment rules. The CBA provides estimates of cost savings as part of its assessment of benefits, where appropriate. The key benefits of the proposals to safety and soundness include: • enhanced senior management responsibility and improved management of MA portfolios and their inherent risks, resulting from the attestation	• The proposals would give rise to some increased implementation and ongoing compliance costs to firms. These costs are expected to vary according to the scale and complexity of MA portfolios, and the extent to which firms are already compliant with the proposals. • In aggregate, across all 19 firms with MA approval, total ongoing costs from year 1 are estimated to range between £7 million and £9 million each year, with an additional £2 million to £3 million for

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process and requirement to demonstrate compliance with the PPP;

greater assurance from the attestation process that the FS reflects all risks retained by firms and that the MA can be earned with high confidence;
ensuring that the additional risks from assets with HP cash flows are allowed for appropriately within the MA;
maintaining the quality of matching between asset and liability cash flows through the introduction of additional controls for assets with HP cash flows; and
improved monitoring and supervision of firms by the PRA, in turn helping to realise the benefits of other policy proposals.

Other key benefits of the proposals include advancing the PRA’s secondary objectives, providing greater clarity to firms, and improving consistency between firms’ approaches.
</td>
<td>implementation costs across all 19 firms excluding one-off cost estimates or those that apply at an asset level.</td>
</tr>
</table>

Foundation 2 – Adopting effective regulatory processes and engagement

Metrics under foundation 2 measure PRA operational efficiency, the accessibility and efficiency of the Rulebook, the efficiency of regulatory requests and the effectiveness of stakeholder engagement with firms.

PRA operational efficiency

The **PRA Authorisation Performance Report** is a quarterly publication of performance metrics on authorisation activity, including data on the average time to determination. The PRA aims to close at least 98% of cases within relevant statutory service standards.[49] The PRA also monitors the number of determinations, refusals, withdrawals, and entries/exits from the UK market.[50] The tables below report information published in the **PRA Authorisations Performance Report 2023/24 – Q4**, covering the year-to-date figures for the 2023/24 financial year.

Time taken to complete authorisations

[49] The PRA aims to close at least 98% within relevant statutory service standards. It would not be sensible to have a 100% aim, as there are some cases which are so complex that it would not be helpful to enforce the statutory timeline.

[50] The PRA does not set aims for other measures related to authorisations such as the number of determinations, refusals, withdrawals and entries/exits from the UK market, given these are not within the PRA's control and are highly dependent on external factors.

Table 4: Time taken to complete authorisations (March 2023 – February 2024)

Process	Relevant Statutory Service Standard	Total number of cases closed	Time to close cases (days)			% of cases closed within statutory service standard
			Lower quartile (25th percentile)	Median (50th percentile)	Upper Quartile (75th percentile)	
All firms						
New Authorisations	Within six months of a complete application, or within 12 months of receipt of an incomplete application	15	217	328	354	93%
Variation of Permission (Excluding Own Initiative)	Within six months of becoming complete, or 12 months of receipt of an incomplete application	153	14	34	141	100%
Change in Control	Within two working days of making the decision (and in any event no later than within 60 working days of acknowledgement of receipt)	68	20	39	54	100%

Senior Managers Regime (Forms A & E)	Within three months of receipt	1,225	37	61	81	95%
Deposit-taking firms						
New Authorisations	Within six months of a complete application, or within 12 months of receipt of an incomplete application	4	-	342	-	100%
Variation of Permission (Excluding Own Initiative)	Within six months of becoming complete, or 12 months of receipt of an incomplete application	124	13	24	132	100%
Change in Control	Within two working days of making the decision (and in any event no later than within 60 working days of acknowledgement of receipt)	25	25	44	58	100%
Senior Managers Regime (Forms A & E)	Within three months of receipt	612	38	63	81	94%

Insurance firms						
New Authorisations	Within six months of a complete application, or within 12 months of receipt of an incomplete application	11	217	304	353	91%
Variation of Permission (Excluding Own Initiative)	Within six months of becoming complete, or 12 months of receipt of an incomplete application	29	43	104	175	100%
Change in Control	Within two working days of making the decision (and in any event no later than within 60 working days of acknowledgement of receipt)	43	20	39	54	100%
Senior Managers Regime (Forms A & E)	Within three months of receipt	613	37	58	80	96%

Other metrics monitored in the PRA Authorisations Report

Table 5: Total number of refusals and withdrawals (March 2023 - February 2024)

Process	Firm type	Total # cases closed	Of which # refusals	Of which # withdrawals
New Firm Authorisation	Deposit-Taking Firms	4	0	1
New Firm Authorisation	Insurance Firms	11	0	3
Senior Managers Regime	Deposit-Taking Firms	612	0	50
Senior Managers Regime	Insurance Firms	613	0	21

Table 6: Refusals reasons (March 2023 - February 2024)

Refusal reasons
n/a – no refusals

Table 7: Number of new and cancelled firms from the UK market (March 2023 - February 2024)[51]

Process	Total number of firms		
	All	Deposit-takers	Insurance
New entrants to UK market (New Firm Authorisations)	11	3	8
Exits from the UK market (Cancellations)	86	42	44

Table 8: Number of new domestic vs overseas firms authorised (March 2023 - February 2024)

Firm type	Total # new firms	Of the new firms, how many are UK firms/groups	Of the new firms, how many are part of an overseas group	Of the new firms, how many are branches
Deposit-taking firms	3	1	1	1
Insurance firms	8	2	2	4
All	11			

[51] Authorisation figures do not include third-country branches that were already operating in the UK via the Temporary Permissions Regime and which received a Part IV permission during this period. However, cancellation figures do include branches that were in the Temporary Permissions Regime which cancelled their permission or moved into contractual run-off.

PRA FTE headcount, by area:

An effectively resourced PRA contributes to its operational efficiency. Transparency around resources can help accountability. During the financial year March 2022 - February 2023, the PRA headcount expanded by around a 100 staff to meet the demands from its post-Brexit new responsibilities and its investments in data capabilities.[52] However, in the 2023/24 financial year, headcount has remained broadly flat. The table below shows the average BAU FTE headcount for each area of the PRA for the 2023/24 financial year.

Table 9: PRA average BAU FTE headcount by area (March 2023 – February 2024)

PRA Area	FTE headcount	Percentage
Prudential Policy	270	18%
Insurance supervision	305	20%
Authorisations, RegTech and International Supervision	283	19%
UK Deposit-Takers Supervision	280	19%
Supervisory Risk Specialists	231	15%
PRA Strategy, Risk & Operations	122	8%

The PRA also draws on wider services, for example, from the Technology Directorate and the Legal Directorate, that are shared with other parts of the Bank of England. The Enforcement and Litigation Division within the Legal Directorate leads on the

[52] www.bankofengland.co.uk/prudential-regulation/publication/2023/july/pra-annual-report-2022-23.

enforcement of PRA's statutory powers. In the 2023/24 financial year, there were 28 FTEs working on the enforcement of PRA's statutory powers.

Accessibility and efficiency of the PRA Rulebook

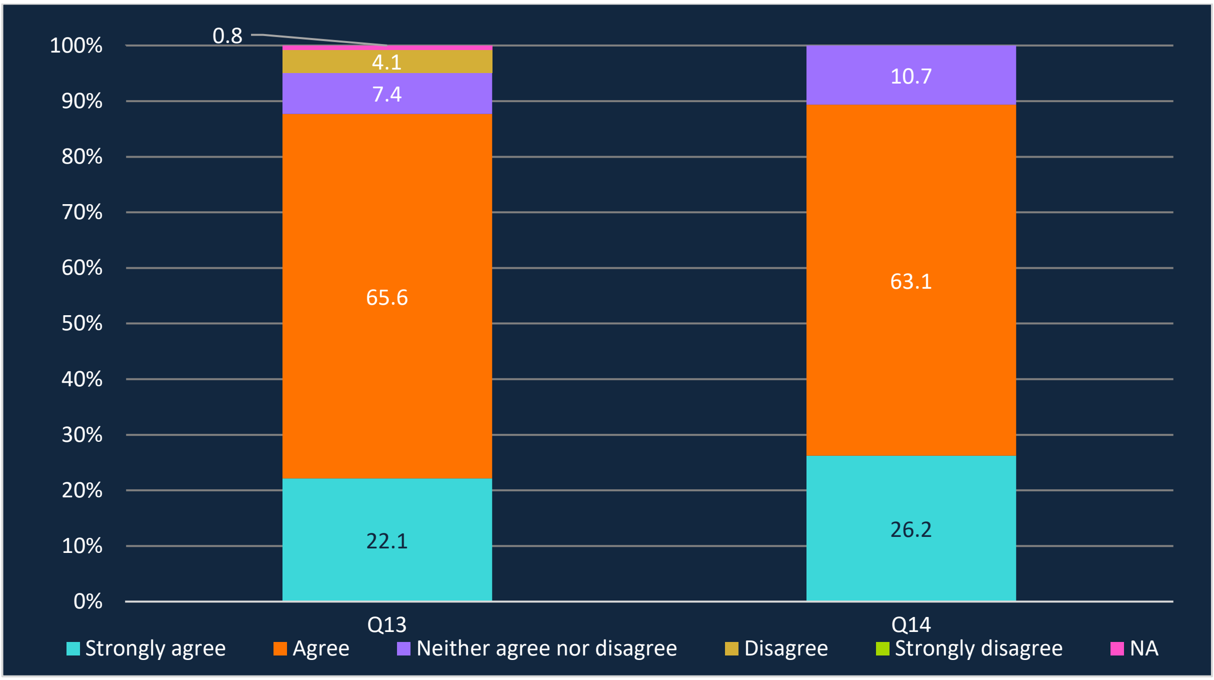
Satisfaction of firms on accessibility of prudential policy, rules, and requirements

The PRA runs an annual firm feedback survey on the effectiveness and quality of the supervisory framework and approach. The 2023 results include questions that are helpful to understand the satisfaction of firms regarding the accessibility of prudential policy, rules, and requirements. The full 2023 survey results will be made available on the Bank's website in due course.

Figure 1 presents the results to the following survey questions:

- Question 13: The relevant prudential rules that apply to my firm are accessible and clear.
- Question 14: The PRA is clear in its reasons for new and revised policy.

Figure 1: Responses to Q13 and Q14 of the 2023 PRA firm feedback survey



The PRA aims to have firms largely satisfied with the accessibility of the PRA Rulebook. The latest results show that:

- **87.7%** of respondents either agreed, or strongly agreed, that the rules that apply to their firm are accessible and clear in 2023. This is up slightly from 87.4% in 2022.

- **89.3%** of respondents either agreed, or strongly agreed, that the PRA is clear in its reasons for new and revised policy. This is down slightly from 90.9% in 2022.

'Dashboard' showing at which stage of consultation or implementation initiatives are at

This information can be found in the **Regulatory Initiatives Grid** (the 'Grid'). The Grid is a publication that sets out the regulatory pipeline to help stakeholders plan for initiatives that may have a significant operational impact on them. It is published by the Financial Services Regulatory Initiatives Forum, which comprises several UK authorities, including the Bank/PRA and FCA, with HMT attending as an observer member. The Grid is normally published on a biannual basis where possible.

Efficiency of regulatory requests

The data the PRA requests from firms to support policy development not only facilitates responsive and dynamic policymaking, but is also necessary for the PRA to meet its accountability requirements. The PRA aims to modernise regulatory reporting to reduce unnecessary burden on firms by, for example, better aligning data collection with the needs of day-to-day PRA activities; better integrating and streamlining PRA data collection (including by looking to cut unused collections, standardising definitions across collections, and removing duplicative data requests); and ensuring the PRA has the data needed to carry out any future policymaking responsibilities.

The PRA gathers data from firms through the regular reporting requirements set out in the Rulebook and through ad hoc data requests.[53] To provide transparency on the efficiency of these requests, this section reports how much data has been streamlined as part of PRA initiatives and the number of data requests (both regular reporting and ad hoc requests) and the time given to respond across deposit-takers and insurers.[54]

Data streamlined as part of PRA initiatives

The PRA Solvency II reforms, among other things, aim to streamline some of the reporting requirements for insurers to achieve a reduction in the low-value reporting burden over time. PS2/24 – **Review of Solvency II: Adapting to the UK insurance market** published in February 2024 sets out the impact of these reforms:

[53] This is the first time that the PRA reports on these metrics, therefore there is no past benchmark. As the PRA continues to produce these metrics in future reports, it will be able to compare the results with the past and provide additional insights on how it has advanced the SCGO.

[54] Mean and 95th percentile time is not an applicable measure for all data requests. In these cases, the PRA has provided an alternative relevant time metric.

- A net removal (i.e., deletions minus additions) **of 107 templates** from the reporting package, which represents **one third** of the existing number of required templates. This measure counts reporting templates by firm type, and frequency (eg, annual solo, quarterly solo, annual group, quarterly group, annual branch, quarterly branch, triennial branch),[55] and includes final PS29/21 policy (Review of Solvency II Reporting Phase 1) changes.[56]
- The reporting changes in PS2/24 lead to a substantial cut to the volume of insurance templates in comparison to the onshored reporting requirements from the EU. However, the PRA accepts that the individual impact on firms may vary greatly because Solvency II reporting is by nature specific to the activity and the business model.

Regular reporting data requests

The tables below present information on data requests to regulated firms prescribed by the PRA Rulebook. They reflect the position of the PRA Rulebook as of 31 December 2023. The tables below present, for different types of regulated firms, the number of templates requested and the business days given to respond to requests. The PRA Rulebook sets fixed submission timelines by which each template must be submitted. [57]

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[55] The PRA has not counted templates submitted more frequently than annually more than once (i.e., a quarterly template is not counted as four templates).

[56] **www.bankofengland.co.uk/prudential-regulation/publication/2021/july/review-of-solvency-ii-reporting-phase-1**.

[57] The PRA Rulebook, and applicable EU reporting requirements that have been assimilated into UK law, set fixed submission timelines by which each template has to be submitted. In some instances, the rules may set more than one timeline for the same template or group of templates, eg, large entities are required to submit at an earlier date and possibly more frequently compared to smaller firms, or consolidated entities may have to submit at a later date than entities reporting on a standalone basis. The following collections are out of scope for all three tables: templates which the PRA collects in conjunction with the FCA where the FCA is the lead; templates that the PRA collects from regulated entities to support the work of international regulatory organisations (such as BCBS, FSB, IAIS, OECD, IMF) to support exercises such as Quantitative Impact Studies, surveys, etc., that are in the spirit of co-operation; internal documents such as management information and Board reporting, periodic notification reporting such as change in control and close links report, etc.

Business days given to respond are calculated on the basis of the reporting due date set in the PRA Rulebook.

Table 10: Number of templates collected in a year and time given to firms to respond – banking[58] [59]

	Total templates collected per year	Weighted average of business days given to respond[60]	95th percentile of business days given to respond
Weekly	52	5	5
Monthly	204	12	20
Quarterly	628	30	30
Half yearly	78	33	45
Annually	82	41	45
Total	1044	26	45

[58] Credit institutions and designated investment entities.

[59] The above data is based on the number of PRA Rulebook templates a PRA regulated entity may have to complete and submit in any given year, based on the total volume of PRA Rulebook requirements. It does not reflect potential firm-level variations due to the size of the entity, its trading activities, threshold criteria, exemptions, waivers, permissions. For example, a firm is unlikely to report group, solo, and branch reporting requirements at the same time, and where reporting thresholds exists, the totals do not exclude the templates that aren't reported for the specific sub-populations of firms that benefit from these proportionality measures. Therefore, an individual firm’s reporting requirements are likely to be lower than the totals reported here. The data is based on the number of templates a firm may have to complete and do not capture the complexity of the collection such as the data points or the multiple sheets that a firm may have to submit, eg, breakdown of the risks by exposure class or risks by different currencies.

The regular reporting collection for banking also excludes 12 Pillar 2 templates that have varying submission deadlines depending on type of firm, and Pillar 3 disclosures templates designed for market participants set under BCBS disclosure standards and published directly by firms.

[60] The weighted average is calculated by weighting the average time given to respond to requests by the number of requests with the same deadline.

Table 11: Number of templates collected in a year and time given to firms to respond - insurance[61]

	Total templates collected per year	Weighted average of business days given to respond[62]	95th percentile of business days given to respond
Quarterly	88	37	55
Half-yearly	2	45	45
Annually	239	77	100
Triennially	2	130	130
Total	331	66	100

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[61] The above data is based on the number of PRA Rulebook templates a PRA regulated entity may have to complete and submit in any given year, based on the total volume of PRA Rulebook requirements and applicable retained European reporting requirements that form part of assimilated law in the UK. Reporting on an individual firm basis varies due to life/non-life operations, threshold criteria, exemptions, waivers, permissions, long-term guarantees, and method of SCR calculation. Individual firms are unlikely to comprise of all these variations. For example, a firm is unlikely to report group, solo, and branch reporting requirements at the same time. The PRA has waived the majority of small to medium firm quarterly reporting; however, these firm-level supervisory permissions are not reflected in the total. Therefore, an individual firm's reporting requirements are likely to be lower than the totals reported here. The data is based on the number of templates a firm may have to complete and do not capture the complexity of the collection such as the data points or the multiple sheets that a firm may have to submit, eg, breakdown by line of business. These metrics have been completed on a best-efforts basis.

The regular reporting collection for insurance also excludes SFCR disclosures templates identical to reporting templates and that are designed for market participants and published directly by firms.

The table of collections reflects the position as of 31 December 2023, but includes the six Solvency II templates that the PRA publicly stated it was content not to receive from end-2023.

[62] The weighted average is calculated by weighting the average time given to respond to requests by the number of requests with the same deadline.

Table 12: Number of templates collected in a year and time given to firms to respond - credit unions[63]

	Total templates collected per year	Weighted average of business days given to respond[64]	95th percentile of business days given to respond
Quarterly	12	31	31
Annually	3	182	182
Total	15	61	182

Ad hoc data requests

The tables below present information on ad hoc data requests made by the PRA to regulated firms in the 2023/24 financial year.[65] These are requests that fall outside of the scope of regular reporting. The tables below present, for different types of regulated firms, the total number of requests, their split by nature of request, and the approximate timings given to respond.[66]

[63] The above data is based on the number of PRA Rulebook templates a PRA-regulated entity may have to complete and submit in any given year and does not reflect potential firm-level variations due to activities, threshold criteria, exemptions, waivers, or permissions. The data is based on the number of templates a firm may have to complete and do not capture the complexity of the collection such as the data points or the multiple sheets that a firm may have to submit, eg, breakdown on the risks by exposure class or risks by different currencies. These metrics have been completed on a best-efforts basis.

The table of collections reflects the position as at 31 December 2023.

[64] The weighted average is calculated by weighting the average time given to respond to requests by the number of requests with the same deadline.

[65] The ad-hoc data request figures include all requests made by the PRA, excluding urgent requests made in response to market events or conditions, requests made to specific firms through day-to-day supervision, and requests for stress testing.

[66] Ad hoc data requests go through a different governance structure than regular reporting requests. This is the reason for the differences in presentation.

Table 13: Total number of ad hoc requests

Type of firm	Total number of requests
Deposit-Takers	24
Insurers	12
Both	4
Totals	**40**

Table 14: Requests broken down by nature of request[67]

Type of firm	Policy	Banking Supervision	Insurance Supervision	Supervisory Risk	Financial Stability
Deposit-Takers	9	21	0	6	2
Insurers	3	0	11	0	0
Both	1	1	1	2	0

[67] The legal power under which these requests are collected is not necessarily related to the area that the request is relevant to. For instance, a request initiated by Supervision might also be relevant for financial stability, which is assessed by Financial Stability Strategy and Risk (FSSR). For this reason, individual ad hoc data requests may be relevant to multiple areas, so the aggregate figures may not be the same as those shown in table 13.

Table 15: Requests broken down by time given to firms to respond to a request

Type of firm	<4 weeks	4-7 weeks	2-6 months	> 6 months	Weighted average (weeks)[68]	Estimated business days
Deposit Takers	5	9	9	1	9	47
Insurers	2	7	3	0	8	39
Both	0	1	3	0	14	72
Total	**7**	**17**	**15**	**1**	**9**	**47**

Effective stakeholder engagement with firms

Satisfaction of firms based on interactions with the regulators[69]

The results from the 2023 annual firm feedback survey (mentioned previously) also includes questions that are helpful to understand the satisfaction of firms based on interactions with the regulators.

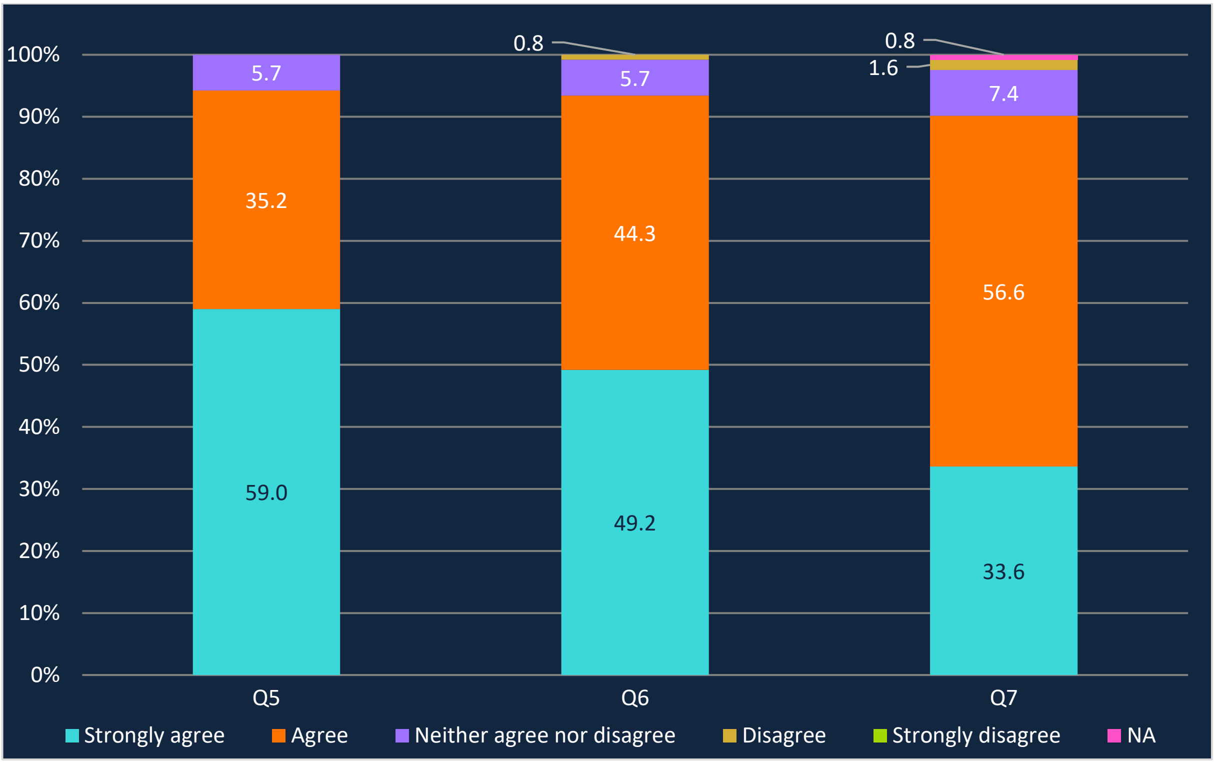
Figure 2 presents the results to the following survey questions:

- Question 5: My firm has an effective relationship with the PRA.
- Question 6: My firm has adequate access to the right people at the PRA.
- Question 7: Communication from PRA supervisors is clear, timely and appropriate for my firm.

[68] Currently, the PRA does not record the exact number of days given for ad-hoc requests, but it records the number of requests that fall within given time periods. The PRA is exploring recording more granular time metrics in the future. Therefore, the weights for the weighted average are calculated by taking the mid-point of each time period. The weighted average is calculated by weighting the average time given to respond to requests by the number of requests with the same deadline. Numbers are rounded to the nearest integer.

[69] The list of metrics published as part of CP27/23 sets out that this metric would be broken down by type of interaction. Due to the timing of this report, the breakdown by interaction is not available. New questions will be added to the PRA's annual firm feedback survey in 2024, and the PRA will explore the possibility to include the breakdown.

Figure 2: Responses to Q5, Q6, Q7 of the 2023 PRA firm feedback survey



The PRA aims to have firms broadly satisfied with their interactions with the PRA. The results show that:

- **94.2%** of respondents either agreed, or strongly agreed, that their firm has an effective relationship with the PRA. This is up slightly from 93.9% in 2022.
- **93.5%** of respondents either agreed, or strongly agreed, that their firms has adequate access to the right people at the PRA. This is up from 90.8% in 2022.
- **90.2%** of respondents either agreed, or strongly agreed, that communication from PRA supervisors is clear, timely and appropriate for their firm. This is up from 85.8% in 2022.

Foundation 3 – Taking a responsive and responsibly open approach to UK risks and opportunities

Metrics under foundation 3 measure the extent to which the PRA facilitates innovation, and its responsible openness.

Innovation

Number of new regulatory initiatives that are designed to facilitate innovation

The PRA prudential framework aims to facilitate safe innovation. The PRA considers that not all financial innovation is beneficial. Some of the complex products developed in the run-up to the 2007/08 financial crisis are an example. However, safe innovation is an important driver for productivity improvements. This type of innovation has to be industry-led and cannot be driven by regulators alone. But the PRA will seek to create a regulatory environment that stimulates and supports innovation and is responsive to the specifics of the UK environment.[70]

The PRA published two regulatory initiatives designed to facilitate innovation in 2023/24:

- Joint feedback statement to a discussion paper on artificial intelligence and machine learning in financial services;[71] and
- 'Dear CEO' letter on innovations in deposit-takers' use of deposits, e-money, and regulated stablecoins.[72]

Additionally, the PRA has supported the work of:

- The Bank's discussion paper on the regulatory regime for systemic payment systems using stablecoins and related service providers;[73]
- HMT and the Bank on establishing a Digital Securities Sandbox;[74]

[70] **www.bankofengland.co.uk/speech/2023/september/victoria-saporta-speech-at-prudential-regulation-authority**.

[71] **www.bankofengland.co.uk/prudential-regulation/publication/2023/october/artificial-intelligence-and-machine-learning**.

[72] **www.bankofengland.co.uk/prudential-regulation/letter/2023/innovations-in-the-use-of-deposits-emoney-and-regulated-stablecoins**.

[73] **www.bankofengland.co.uk/paper/2023/dp/regulatory-regime-for-systemic-payment-systems-using-stablecoins-and-related-service-providers**.

[74] **www.gov.uk/government/consultations/consultation-on-the-digital-securities-sandbox**.

- HMT in finalising its proposals for a UK regulatory regime for cryptoassets.[75]

For further detail on these initiatives, please refer to section 3 above.

Responsible openness

UK banks' exposure to foreign jurisdictions

One of the pillars of the PRA's responsibly open approach is hosting cross-border business in the UK, provided that it is resilient and appropriately controlled and governed, and that the PRA has sufficient visibility of and influence over the necessary supervisory outcomes.[76] Responsible openness is essential to the UK's success because it is one of the world's most connected financial centres.[77]

The **Bankstats tables** datasets provide detailed breakdowns of data published in the Bank's statistical releases, alongside other statistics the Bank compiles. Table B1.4 provides datasets on monetary financial institutions' (excluding central bank) balance sheets. Using this, the PRA calculated the exposure of UK banks' assets and liabilities to foreign jurisdictions, which can be used as a proxy for openness.

[75] www.gov.uk/government/consultations/future-financial-services-regulatory-regime-for-cryptoassets.

[76] www.bankofengland.co.uk/speech/2021/january/david-bailey-boe-afb-afme-webinar-on-a-forthcoming-consultation.

[77] www.bankofengland.co.uk/speech/2023/february/victoria-saporta-speech-on-financial-regulation-and-competitiveness-and-growth.

Table 16: UK banks' exposure to foreign jurisdictions

	Annual average (%)	
	2023	2022
Percentage of UK banks' total assets that are held by non-UK households, businesses, and other monetary and financial institutions.[78]	45.9	45.5
Percentage of total liabilities held by UK banks that are from non-UK households, non-UK businesses and other non-UK MFIs.[79]	38.8	39.9

[78] This figure represents the 2023 yearly average of amounts outstanding of UK resident monetary financial institutions' (excl. Central Bank) total sterling and foreign-currency assets held by non-residents (B3XO, B3GP, B3JP, B3MP, B3PP, B3TP, B2UH, B3JQ, B3PQ) as a proportion of 2023 yearly average of amounts outstanding of UK resident monetary financial institutions' (excl. Central Bank) sterling and all foreign-currency assets total (B3UQ).

[79] This figure represents the 2023 yearly average of amounts outstanding of UK resident monetary financial institutions' (excl. Central Bank) total sterling and foreign-currency liabilities with non-residents (B30M, B3TM, B3WM, B3NN, B3RN), as a proportion of 2023 yearly average of amounts outstanding of UK resident monetary financial institutions' (excl. Central Bank) sterling and all foreign-currency liabilities total (B3ZN).