INSURANCE ADVISORY
PREDICTIONS 2025

DAC BEACHCROFT

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1. Proposals to develop a UK captive market will progress in 2025

The new UK Labour government has signalled that it could be receptive to establishing a UK-domiciled captive regime. The London Market Group (LMG), with the backing of brokers, captive managers, insurers and AIRMIC, is calling for a consultation over the coming months to advance a framework to establish London as a leading captive centre, attracting international business and promoting growth. London's existing expertise in insurance creates a trusted and stable environment for new captive formations by UK companies and non-UK multinationals, as well as a skilled workforce, provided that the fiscal and regulatory conditions are favourable and competitive. France has seen significant growth in its captive market in recent years and the UK will need to act swiftly if it wants to avoid being left behind.

2. Focus will intensify on neurodiversity in 2025

As the ESG focus swings from environmental and governance issues towards social concerns, and in particular diversity and inclusion, the spotlight will intensify on neurodiversity in the year ahead. This is not just as a matter of social responsibility but as a key opportunity to access fresh ideas and untapped talent for the industry. The Buckland Review of Autism Employment published its report in February 2024, highlighting that 1 in 70 people are autistic and that autistic people face the largest pay gap of all disability groups. There is a wide range of potential barriers to work for autistic people; poor preparation by employers, unfair hiring practices, unclear processes and outdated attitudes all play a role. No wonder only around 35% of autistic employees are fully open about being autistic, with 1 in 10 not disclosing to anyone at work. The report provides recommendations on: initiatives to raise awareness, reduce stigma and capitalise on productivity; supporting autistic people to begin or return to a career; and appropriate recruitment practices and career progression. In order to reap the benefits, a supportive and inclusive environment will need to be provided but tapping into this talent pool is clearly something insurers should continue to work on into 2025 and beyond.

3. 2025 will be a busy year for regulators, carriers and insureds as they embed operational resilience frameworks

Resilience is not just a cyber security issue, but a broader and pervasive concern for all. Many insurers with EU-regulated entities will be in-flight with technology, controls, contractual and organisational compliance activity in readiness for the EU's Digital Operational Resilience Act's (DORA) application on 17 January 2025. DORA and related regulatory activity, such as the UK's Operational Resilience rules and proposed rules regulating Critical Third Parties, reflect concerns over operational resilience risks for the insurance sector, particularly where threat vectors are technology-enabled, as many are. A feature of the new rules is their interest in the mapping of adverse resilience impacts (and firms' impact tolerances to these), and how supply chains may be vulnerable – and not just at the tier 1 level, but all the way down the sub-contractor stack. The CrowdStrike outage in July 2024, which at one point grounded the major US airlines, showed how business-critical systems can be vulnerable to cascading failures originating not from threat actors, but from tech firms.

4. The FCA will actively police sustainability claims made by the firms it regulates

The Financial Conduct Authority (FCA) is under pressure from climate activists, like ClientEarth, calling for guardrails to combat the prevalence of 'transition-washing' (the provision of transition finance to entities not genuinely transitioning to align with the Paris Agreement) and the rise in 'greenwashing'. In 2024, the FCA produced a package of measures (widely known as the 'greenwashing rules') to improve the trust and transparency of sustainable investment products. The rules require firms to ensure their sustainability references are fair, clear and not misleading, and proportionate to the sustainability profile of the product and service. The launch of these new rules coincided with the FCA's confirmation that it had opened its first climate-related enforcement investigation against a company – a clear signal that the FCA is looking closely at sustainability claims by firms.

5. The FCA will act against firms it thinks are not delivering good customer outcomes

With the passing of the 31 July 2024 deadline for the first Consumer Duty annual report, the FCA will continue to scrutinise insurers and intermediaries to ensure that they are delivering good consumer outcomes as mandated by the Consumer Duty. Key to this is being able to monitor for and evidence good outcomes, rather than relying on an absence of evidence of poor outcomes. With the FCA noting that it continues to see "substandard service levels across insurance sectors", we expect the FCA to continue to keep a close eye on insurers and intermediaries and their compliance with the Consumer Duty. The FCA has also flagged significant concerns about failings on the part of both insurers and intermediaries with their product oversight and governance obligations, finding many examples where firms appear not to be meeting regulatory requirements. We expect to see several insurers and intermediaries being required to appoint skilled persons under s166 of the Financial Services and Markets Act, to assess their product oversight and governance frameworks and identify possible harms that may have resulted from non-compliance.

6. IRFS17: Far from done and dusted

The changes to accounting standards driven by the International Accounting Standards Board (IASB) are far from settled. Insurers are still not happy with the new regime, especially as it imposes a more relaxed regime on banks. The collection of International Financial Reporting Standards (IFRS) has been a long time in the formulation but the changes are now beginning to bite, imposing more demands on the financial and technical resources of insurers. After nearly a decade of arguments between insurers and the IASB, from January 2023 IFRS17, and its cousin IFRS9, imposed new rules requiring the profit on long-term policies to be accounted for evenly across their lifetime. For many insurers used to accruing the profit on policies immediately they are taken out this has required a huge trawl through legacy data and a major adjustment to their balance sheets, not always favourably. For insurers, there are still issues around how alternative assets are treated and the failure to deliver some of the promises around dynamic risk management, especially the restrictions on linking hedging instruments to liabilities. We expect some vigorous lobbying by insurers – led by pan-European trade body Insurance Europe – to get some movement on these points.

7. AI could lead insurers into a D&I minefield

At the 10th Dive in for Diversity Festival this autumn Sir Trevor Phillips, former head of the Commission for Racial Equality, warned about the potential negative impacts of AI on diversity and inclusion. He put the market on notice that it must be alive to the dangers of drifting into this minefield unawares. As certain roles are reshaped or even eliminated by AI, it is necessary to step back and look at the relative impact on disadvantaged groups, asking whether they are disproportionately represented in those roles. Many in the sector are already concerned about the ability of AI to take over certain functions that were always carried out by junior staff and trainees and how that might impact the future talent pipeline but they must also look at how that might potentially limit access to the industry and its supporting professions, especially by people from diverse educational backgrounds. The challenge will be to create entry points for people that ensure everyone has the same opportunities. With greater scrutiny, measurement and monitoring of all aspects of diversity, businesses could quickly find themselves going backwards and publicly held to account if they do not make this a key focus of their adoption of AI.

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