PRA Supervisory Priorities 2023

Executive summary of challenges and prioritised actions

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Supervisory priorities

UK Deposit takers

UK Banks

UK Life and general insurers

Why MS?

Targeted requests for enhanced data in credit risk. Thematic reviews to assess risk management and control frameworks. In operational risk, focus on outsourcing and crypto- products offering. Regarding climate change, further alignment with expectations

	Credit risk	*Financial resilience*	*Operational risk and resilience*	*Model risk*	*Data*	*Climate change*
Challenges	• Impact on **credit portfolios** of **increasing interest rates, inflation**, **geo-political uncertainty**, and **supply chain disruptions** • **Ensurement of robust risk management practices** and close monitoring of portfolios	• Deficiencies in **banks' risk management and governance** frameworks • Accumulation of accrue large and **concentrated exposures to single counterparties**	• Increasing **digitization**, changes in **payment systems** and need to address **legacy IT systems** • Material increase in **services being outsourced**, particularly to cloud providers, and increase of firms offering **crypto products** • Adaptation to ISO 20022 messaging and rest of ISO migrations	Weaknesses that PRA highlighted in the 2022 priorities letter (including **development, testing, validation, change management, and governance** of Models)	Submission of **complete, timely, and accurate** regulatory returns. It is the foundation of effective supervision	**Different level of implementation and embedding** of the climate and environment **expectations**
Prioritised actions	• **Assessment of Credit Risk management** with focus on traditionally higher risk portfolios: retail credit cards, unsecured personal loans, leveraged lending, real estate commercial) • Firms' **early warning indicator frameworks**, given many Credit Risk metrics are backward looking • **Targeted requests** for enhanced **data and analysis**	• Ongoing assessment of **firm's capital and liquidity positions and evolution** • Ongoing assessment of testing and scenario analysis of sustainability of the business model to changing conditions • Impact of retail / wholesale funding conditions and maturity of debt. • Continue to assess firms' **risk management and control frameworks** through individual and cross-firm **thematic reviews**	Assessment of firms against PRA's Operational Resilience rules, analysing whether they: • Can remain within their impact **tolerance for each Important Business Services (IBS)** • Manage the risk arising from large IT transformation programmes and **outsourcing** • Have fully understood the impact of offering **crypto products** on their operational resilience (Comply with SS 1/21)	• Adherence to **finalised Model risk Management (MRM) principles** for banks (H1 2023) • For **IRB models**, **focus on** the implementation of **IRB Hybrid mortgage models**, the IRB Roadmap for **non-mortgage portfolios**; and IRB **aspirant** firm model applications • Increase PRA's focus on **new FRTB models**	• Adoption of thematic findings set out in Reg.Reporting comms • Investment in delivering PRA´s **own Regulatory Technology (RegTech) and data strategy**, for which accurate firm submissions of data and information are critical • Engagement with firms on **data collection** as part of the Banking Data Review	It is expected that firms take a **proactive approach to addressing climate change risks** and demonstrate capabilities in meeting supervisory expectations

Other priorities

- **Diversity, Equity, and Inclusion (DEI)** : i) launch a consultation paper setting the proposals to introduce a new regulatory framework on DEI in the financial sector
- **Resolution**: Firms should continue to work to ensure that they achieve, and can continue to maintain, the resolvability outcomes of the Resolvability Assessment Framework (RAF) and ensure that they are transparent in their disclosures about their preparations for resolution
- **Supervisory approach**: update PRA`s published supervisory approach documents during the first half of 2023

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Assessments of capital and liquidity positions, risk management and governance frameworks to maintain financial resilience. Assessment of operational resilience frameworks in outsourcing and crypto-products offering, as well as payments. Improvement in data submissions. Further alignment and embeddedness of climate risk regulatory expectations.

Challenges

Financial resilience	Operational risk and resilience	Data	Climate change
• Challenging operational environment with **volatility** in financial **markets** and **weak economic outlook** • Pre-existing deficiencies in **banks' risk management** and **governance framework** • **Large accrued and concentrated exposures to single counterparties, not understanding risks**	• Increasing **digitization**, changes in **payment systems** and need to address **legacy systems** • Risks from the material increase in **outsourced services** (to cloud providers) and growing number of **crypto products offering** • Identify and manage dependencies from numerous ISO20022 parallel migrations	Deficiencies identified in the controls over **data, governance, systems, and production** controls related to regulatory reporting	• Different level of embeddedness of the **climate and environment regulatory expectations across financial institutions** • **Challenging environment and volatility in financial markets** may bring **new risks** impacting approaches defined by financial institutions

Prioritised actions

Financial resilience	Operational risk and resilience	Data	Climate change
The PRA will undertake **assessments of individual firms' capital and liquidity positions and continue to assess firm's risk management and control frameworks through individual and cross-firm thematic reviews, with firms expected to complete**: • Comprehensive review of **onboarding** and **due diligence practices**, as well as counterparty pricing and margining frameworks • Thorough **review of their counterparties** and **stress test counterparty exposures,** in particular non-bank financial institutions	The PRA will continue to monitor firms' use of new technologies (asset tokenization), and the outsourcing of services to third parties, analysing whether firms: • Remain within their impact **tolerance for each Important Business Services (IBS)** • Manage the risks arising from **outsourcing** • Have fully understood the impact of offering **crypto products** on their operational resilience (Comply with SS 1/21) The PRA also expects firms to be ready for ISO20022 changes with E2E testing and go live rehearsals in full	The PRA will continue to use skilled persons reviews in the area of data in 2023 and expects firms to: • Consider **the thematic findings set out in the PRA communications on regulatory reporting** to inform how best to improve their submissions going forward • Collaborate with the PRA on consultations regarding the way the PRA collects data as part of the **Transforming Data Collection Programme**	• The PRA expects firms to take a **proactive approach to addressing climate change risks** and demonstrate capabilities in meeting supervisory expectations • The PRA highlights the need to define **approaches proportionate to the nature, scale and complexity of the risks faced**

Other priorities

- **Diversity, Equity, and Inclusion (DEI)** : i) PRA to launch a consultation paper setting the proposals to introduce a new regulatory framework on DEI in the financial sector
- **Supervisory approach**: update on initiatives to strengthen the PRA's supervisory approach. PRA to inform institutions of potential changes during 2023

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Ability to stress test adverse credit scenario, consider in pricing, reserving and planning inflation risk drivers, and to assess their CR and CCR management capabilities and the validity of models. Implementation of Solvency II reforms. Compliance with Operation Resilience (mapping of IBSs, scenario testing) and TPRM (SS2/21) requirements. Having executable and prudent exit plans

Financial resilience	Risk management	Implementing financial reforms	Reinsurance risk	Operational risk and resilience	Ease of exit for insurers
Challenges					
• Challenging economic outlook (recession, high inflation) • Life Insurers (LI): Greater exposure to credit and concentration risk • General Insurers (GI): Claims inflation and uncertainty on future claim settlement costs	• Novel risks, changes in risk correlations, increases in distressed assets • Widening credit spreads, rating downgrades and defaults	• Extensive detailed rulemaking required to implement and make Solvency II reforms operational	• Reduction of protection to UK Life policy holders due to the continued high level of **longevity reinsurance** and the emergence of the more **complex 'funded reinsurance'**	• Increase in crystallised operational incidents	• Many smaller firms remain without **exit plans**
Prioritised actions					
Firms are expected to: • LI: Stress test capital planning against prolonged adverse credit scenarios robustly • GI: Factor **general and social inflation risk drivers** into their underlying pricing, reserving, business planning, and capital modelling	Firms are expected to: • Assess their CR and CCR management capabilities • Reassure themselves of the continued validity of their models and whether current validation remains robust • Test resilience of liquidity sources and re-evaluate potential liquidity demands by use of derivatives for risk management	It is expected that the PRA: • Reforms reporting requirements and simplifies the internal model review process of Solvency II • Engages with LI on the extent to which the ST framework may need to adapt • Completes the assessment of any outstanding branches within the **Temporary Permissions Regime** and sets the supervisory approach to branches	Firms are expected to consider: • Their compliance with the **Prudent Person Principle (PPP)** for the risks associated with their reinsurance activities • The **reinsurer's resilience** over the whole duration of the exposures while the PRA will examine the need for **policy action** on reinsurance structures and limits to mitigate systemic risks	Firms are expected to: • Have identified and mapped **important business services and set impact tolerances** • Demonstrate their ability to operate within those **impact tolerances under a range of plausible scenarios** • **Meet the expectations** set out in SS2/21 - '**Outsourcing** and third-party risk management'	Firms are expected to: • Consider how they might **exit the market**, what the obstacles might be and how to overcome them • Have plans that are **executable on a timely-basis** and prudent • Be cognisant of the risks contained in the books they may consider transferring

Other priorities

- **Non-natural catastrophe risk:** Work with the industry to improve non-natural catastrophe risk (including cyber) risk management capabilities
- **Diversity, Equity and Inclusion (DEI):** Issue a CP (building upon DP 2/21) setting out proposals for a new regulatory framework on DEI in the financial sector
- **Financial risks arising from climate change:** Assess compliance with SS3/19 through supervisory engagement, firm-specific deep dives, and thematic work
- **Supervisory approach:** Communicate with firms when the recent Jan 23 reduction in the 'potential impact' categories (from 5 to 4) results in changes to their supervisory work plan and update the supervisory approach, where required, if and when the Financial Services and Markets Bill is passed into law

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Management Solutions has in-depth knowledge of financial regulation and extensive experience in supporting on-site inspections (OSIs) through different types of collaboration, adapting to the needs of each entity and making available the different profiles that make up the Firm

REGULATORY EXPERTS

MS has a **Regulatory Observatory** that provides in depth knowledge of the regulatory requirements of financial and non financial institutions at the European Level (including UK).

MS PROFILES

- **Functional** profiles
- **Data scientist** profiles (data processing and modelling)
- **Technical** Profiles

POSSIBLE TYPES OF COLLABORATION

PMO SUPPORT

- **Stakeholder** coordination
- Development and monitoring of the OSI **work plan**
- Preparation of **meetings with the supervisor**

AREAs SUPPORT

- Support in the preparation of **documentation** associated with each area
- Support for necessary **qualitative and quantitative analyses**
- Support in the **Loan Tapes file**

DOCUMENTATION IMPROVEMENT

- **QA** support for **updating and** improving existing **documentation**
- Collecting and challenging **evidence**

SUPPORT FOR REMEDIATION PLANS

- Support in the identification and execution of **remediation plans.**
- **PMO** support for **plan execution** tracking

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