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UK Chancellor's Leeds Reforms: Key Takeaways for Financial Services

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Background

On 15 July 2025, UK Chancellor Rachel Reeves announced significant financial services reforms known as the "Leeds Reforms". These reforms aim to boost UK investment, enhance market competitiveness, and to position the UK as a global leader in financial services by 2035, through targeting key areas such as regulatory simplification and promoting innovation. In parallel, the government also released the Financial Services Growth and Competitiveness Strategy paper.

What is striking about the package of reforms is that they cover broad and numerous areas of regulation and signal a distinct agenda to deregulate the UK financial services industry. The Chancellor's general rhetoric focused on "rolling back regulation that has gone too far".

Unlike the prior conservative government's Edinburgh Reforms, the Leeds Reforms benefited from collaboration across government, regulation and the industry. The key proposals relevant to the insurance industry are summarised below.

Streamlined Regulatory Framework

Faster Regulatory Decisions

HM Treasury is consulting on reforms to the statutory deadlines for authorisations and approvals which would reduce regulatory approval timeframes as follows:

- The timeframes for new firm authorisations and variations of permission will be reduced from six months (for complete applications) to four months, and 12 months (for incomplete applications) to 10 months.

- The timeframe for senior manager approvals will be reduced from three months to two months.

In addition, the UK regulators are committing to certain non-statutory targets, including:

- The FCA will aim to complete variation of permission applications within three months for complete applications and six months for incomplete applications, if the permission sought is aligned with the firm's existing business model.

- The regulators will aim to complete at least 50% of Senior Manager applications within 35 days (FCA) and 45 days (PRA).

These changes ultimately aim to reduce uncertainty in the market and drive innovation.

"Have Regards" Decisions

HM Treasury is also looking to rationalise how the numerous legislative principles to which the UK regulators must "have regards" when making decisions. HM Treasury's paper indicates that these principles can sometimes have a disproportionate burden on regulators and therefore reduce their agility, whilst also acknowledging the importance of certain regulatory principles. HM Treasury indicated that the government will legislate to change the way that "have regards" principles work by removing the requirement to consider each of these principles when making day-to-day decisions, but keeping such principles for considering new long-term strategies.

Senior Managers and Certification Regime ("SMCR")

The proposals relating to the SMCR include:

- Removing the certification regime from legislation (which currently requires firms to certify the fitness of certain non-senior staff to perform their relevant functions). It is expected that this will be removed from existing legislation but replaced by a new regulatory regime (although the details of this regime have not been provided to date).

- Reducing required regulatory approvals. HM Treasury is consulting on:

  - Reducing the overall number of Senior Managers within the regime and giving the UK regulators greater flexibility in specifying the list of functions that require approval.

- Amending legislation to enable the regulators to permit firms to appoint certain Senior Managers without pre-approval. Regulated firms would still need to diligence candidates appropriately and notify the regulator of appointments.

- Streamlining processes for senior manager functions (see above on the broader reduction in timelines for regulatory approvals).

- Considering whether to allow the regulators to develop more proportionate rules (by deleting the existing rules from the legislation), including in relation to statements of responsibilities and reporting of Conduct Rule breaches.

However, there is little detail on how the UK regulators are going to respond to the overall reduction and greater flexibility in Senior Manager functions, nor on when pre-approval may not be required. We therefore have limited clarity on how these changes will be implemented or their effect in practice.

Reforms to the regime have been expected for some time – initial discussions for reform began in Spring 2023. It is expected that any reforms will take place in two phases – with the most meaningful reforms reserved for the second phase. It is likely that the phase 1 changes will take effect in the middle of 2026. Phase 1 is expected to focus on:

- Reducing duplicative processes when certifying individuals for multiple senior management functions.

- Streamlining annual fit and proper checks.

- Better defining certain functions.

- Giving firms more time to update senior manager responsibilities, submitting approvals for temporary or interim senior management functions, and updating the directory of certified staff.

As such, it remains to be seen when the impact of the Chancellor's promised 50% reduction in the burdens imposed by the SMCR will be felt.

On 15 July 2025, the PRA and FCA published aligned consultation papers launching Phase 1 of their SMCR reviews, focusing on changes that can be made without new legislation.

PRA Consultation (CP18/25):
The PRA's proposals stem from recent operational experience and industry feedback on DP1/23. Key reforms include:

- In cases of temporary absence, firms would have 12 weeks to *submit* a Senior Manager Function ("SMF") application, rather than to secure approval. Interim appointees would be subject to Senior Manager Conduct Rules.

- Refining the scope of the Group Entity Senior Manager role, and expanding it to cover controllers with significant influence even if not directly employed.

- Longer timeframes to update Statements of Responsibilities ("SORs") and Management Responsibility Maps ("MRMs") and extending criminal record check validity from three to six months.

- A policy index for easier navigation and removal of outdated EU references in SS28/15 and relevant Handbook sections has also been proposed.

FCA Consultation (CP25/22):
The FCA aims to improve SMCR efficiency while maintaining its core purpose. Key proposals include:

- Aligned with the PRA, the FCA proposes allowing firms 12 weeks to submit SMF applications, with appointees subject to Senior Manager Conduct Rules during review.

- Updates to Form A (which firms must use to apply for an individual to perform SMF roles) to improve its usability, and background checks, including extending their validity to six months and removing checks for existing SMFs taking on new roles in the same group.

- Firms could submit SOR updates every six months. Certification processes may be streamlined, allowing digital certificates and removing duplication.

- Shortening the recommended timeframe for providing regulatory references from six to four weeks and clarifying expectations for references from overseas employers.

- Further guidance on SMF roles and Prescribed Responsibilities is proposed, along with a 30% increase to thresholds for becoming an Enhanced SMCR firm, reflecting inflation.

- Technical amendments are proposed to ensure consistency with PRA changes.

Financial Ombudsman Service ("FOS")

The government has made repeatedly clear since coming into office in 2024 that it plans to reform the FOS. In particular, the government has raised concerns about the latitude given to the FOS to decide difficult, but significant, cases for the financial services industry (and the knock on effect that this has on potential investment). HM Treasury is now consulting on reforms to the legislation that aim to return the FOS to its "original purpose as a simple, impartial dispute resolution service, which quickly and effectively deals with complaints, and which works in concert with the FCA". Certain of the suggested reforms include:

- Amending the fair and reasonable test (which requires the FOS to determine complaints by reference to what is "in the opinion of the ombudsman, fair and reasonable in all the circumstances of the case") so that where conduct is in scope of FCA rules, compliance with those rules, consistent with the FCA's intention for what those rules should achieve, will mean that a firm has acted fairly and reasonably.

- In the case of ambiguity in how an FCA rule may apply to the particular case, the FOS will be required to request a view from the FCA, and the FCA will be required to provide a clear view within a prescribed timeframe.

- Parties to have the ability to request that the FOS refers an issue of rule interpretation to the FCA before issuing a final decision.

- Obliging the FOS to refer wider implications issues or mass redress events to the FCA. The FCA will have an updated framework to respond to such events (and for identifying mass redress events).

- Imposing an absolute time limit of ten years from the relevant conduct for bringing complaints to the FOS.

On 15 July 2025, the FCA and the FOS published joint consultation paper CP25/22, setting out proposals to modernise the redress framework. The aim is to deliver better outcomes for consumers while providing firms with greater clarity and regulatory efficiency. Other key proposals, as well as the proposals above, include:

- Clarifying firm reporting duties under Chapter 15 of the FCA's Supervision (SUP) Sourcebook so firms report systemic issues as early as possible.

- Centralising decision-making authority with a Chief Ombudsman.

- Allowing representative 'lead complaints' and adding a new complaint registration stage.

- Streamlining the Dispute Resolution Sourcebook (DISP) and Compensation Sourcebook (COMP) to reduce the regulatory burden.

Encouraging Overseas Investments

The Financial Services Growth & Competitiveness Strategy includes two separate strategies for making the UK a global location of choice for the investment in financial services:

- The government will introduce a concierge service within the new Office for Investment to provide a tailored service to companies considering setting up and expanding in the UK, particularly by helping them navigate the UK regulatory landscape and broader barriers to entry. This is expected to launch by October 2025.

- HM Treasury has also published policy materials and draft legislation relating to setting up new Overseas Recognition Regimes, which will be a harmonised approach to the UK's regulatory recognition of overseas jurisdictions (aimed at replacing the equivalence frameworks inherited in various pieces of assimilated law).

Regulatory Approach

The Financial Services Growth & Competitiveness Strategy indicates that the government will require the regulators to take a long-term strategic approach to regulation and supervision, and explain how such strategies will further their objectives. The regulators will also be required to have regard to the government's remit letters when setting their strategies.

Innovation and Fintech

Digitalisation of Financial Markets

The government has published a Wholesale Financial Markets Digital Strategy - a new strategic blueprint focused on digitalising UK wholesale markets using AI and smart data, to cut costs and support new forms of asset ownership and transfer. A central component of the strategy is the use of Financial Market Infrastructure Sandboxes. The sandbox approach enables new regulatory frameworks to be created temporarily, and once use cases are proven viable, these frameworks can be rapidly converted into permanent regimes. This sandbox approach will complement broader regulatory transformation, for instance the efforts to develop new cryptoasset regulatory regimes and to revise prudential rules for digital assets. Additionally, the FCA's Supercharged Sandbox plays a pivotal role in facilitating the real-time testing of AI-driven solutions, ensuring the UK's financial system remains adaptive as technologies continue to evolve.

The FCA will also appoint a new AI Champion for financial services and launch a Smart Data Accelerator to support policy development and Open Finance testing. The Champion is expected to be a "catalyst for the adoption and innovation of AI in financial services" and the government's Growth and Competitiveness Strategy has indicated that the insurance industry will be an area of focus for the AI Champion. We are told that the champion will be focused on how AI can drive growth in financial services, including by improving consumer outcomes.

Lastly, the FCA and PRA will jointly launch a Scale Up Unit to improve regulatory engagement and support for fast-growing, innovative financial firms, smoothing their journey from innovation to market scale-up.

Reforms for Insurers

New Captive Insurance Regime

As part of its drive to boost the UK's standing as a global insurance hub, HM Treasury has confirmed the introduction of a new captive insurance regime. Designed to simplify regulation and lower capital and reporting requirements, the regime aims to attract more firms to establish captives in the UK by introducing differentiated oversight for direct-writing and reinsurance captives. Notably, financial services firms will now be permitted to form captives for limited purposes—such as insuring their own buildings—and captives will be allowed to write some life insurance business (e.g., Group Life fixed-term policies). However, captives will still be barred from writing compulsory lines directly, though reinsurance of those lines will be permitted. While the regime does not offer tax incentives, the framework is intentionally flexible and proportionate, with formal regulatory consultations expected in 2026.

Risk Transformation Regulations ("RTRs")

In parallel, HM Treasury has launched a consultation to reform the RTRs, which underpin the UK's insurance-linked securities ("ILS") regime. The proposals aim to broaden access to capital markets by facilitating direct investment in ILS, and builds on the government's newly published proposals on captive insurance by exploring expanded applications for protected cell company (PCCs) structures, allowing them to operate not just as risk transformers, but also as insurance undertakings.

Streamlining Insurance Regulation

The government intends to streamline the regulatory burden faced by insurers by reducing friction and costs in insurance-specific regulation and ensuring regulation is proportionate for large risks and innovative lines, including by:

- Streamlining the product governance and fair value requirements for insurance firms.
- Reforming conduct requirements for commercial and bespoke insurance business, supporting the FCA to remove unnecessary consumer protections when insurers serve large or specialist customers.
- Introducing a streamlined regulatory approval process for Lloyd's of London managing agents and working with Lloyd's to reduce the timeframe for authorisation.

Sustainable Finance

Shift in Green Finance Strategy

The government has decided not to proceed with developing a UK-specific green taxonomy, citing limited support in responses to the consultation and doubts over its effectiveness in driving net zero investment.

Instead, efforts will shift toward supporting market-led solutions, tackling greenwashing, and aligning reporting standards with international norms.

UK Sustainability Reporting Standards

New standards (to be known as UK SRS) will be introduced to align with the International Sustainability Standards Board (ISSB) frameworks, with final versions due by the end of 2025 for voluntary use. The standards are expected to take forward transition plans for financial institutions and listed companies. At the same time, the FCA will consult on its TCFD-aligned disclosure requirements for listed issuers to reference UK SRS.

ESG Ratings

The government will legislate to regulate ESG ratings providers by the end of 2025. The FCA will also consult on its rules for the new regime.

Next Steps and Implications

The Leeds Reforms represent a substantial shift towards enhancing the competitiveness of UK financial services. While industry bodies broadly welcome these initiatives, emphasis now turns to practical implementation, with multiple consultations and legislative changes expected.

Financial institutions should engage proactively in upcoming consultations to fully leverage new opportunities and begin aligning internal governance and compliance frameworks with these emerging regulatory developments.

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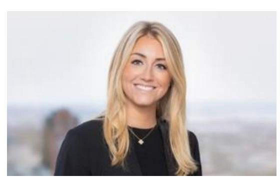

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