



Summary of regulatory developments

Updates for December 2018

This memo identifies and summarises any regulatory updates published during December 2018 that may be of relevance to life insurance companies.

The following table summarises the relevant updates that were identified in December:

REGULATORY ITEMS IDENTIFIED IN DECEMBER THAT MAY BE OF RELEVANCE TO LIFE INSURANCE COMPANIES

Date	Description
10-Dec	The Prudential Regulation Authority (PRA) publishes its 'Solvency II: Equity release mortgages – PS31/18'
10-Dec	The Financial Conduct Authority (FCA) extends the Senior Managers and Certification Regime (SM&CR) to all insurers regulated by FCA
12-Dec	FCA publishes 'Update on preparing your firm for Brexit'
12-Dec	FCA proposes changes to facilitate investment in patient capital
14-Dec	The European Insurance and Occupational Pensions Authority (EIOPA) announces results of the 2018 Insurance Stress Test
17-Dec	FCA publishes the governments draft legislation for the financial services contracts regime (FSCR) in the case that the UK leaves the EU without a withdrawal agreement
18-Dec	EIOPA publishes its third annual analysis on the use and impact of long-term guarantees (LTG) measures and measures on equity risk
19-Dec	EIOPA calls for input on the Solvency II reporting and disclosure review 2020
20-Dec	PRA consults on changes to 'PRA Rulebook and Binding Technical Standards' and 'Resolution Binding Technical Standards' in response to UK's withdrawal from the EU

REGULATORY ITEMS IDENTIFIED IN DECEMBER THAT MAY BE OF RELEVANCE TO LIFE INSURANCE COMPANIES

Date	Description
20-Dec	EIOPA publishes third annual report on the use of limitations and exemptions from reporting under Solvency II
20-Dec	EIOPA publishes second annual report on the use of capital add-ons under Solvency II
21-Dec	EIOPA publishes new sets of questions and answers (Q and A) on Regulation.
31-Dec	PRA publishes updated templates and LOG files to reflect the Monday 31 December 2018 effective date.

Updates for December 2018

This section highlights articles of interest to life companies released in December 2018.

EIOPA

- EIOPA announces results of the 2018 Insurance Stress Test

EIOPA publishes the results of its 2018 Stress Test for the European insurance sector. This year's exercise assessed the participating insurers' resilience to the following three severe but plausible scenarios:

- A yield curve up shock combined with lapse and provisions deficiency shocks, which means there is a sudden and sizeable repricing of risk premia and a significant increase in claims inflation.
- A yield curve down shock combined with longevity stress, which means there is a protracted period of extremely low interest rates accompanied by an increase in the life expectancy.
- A series of natural catastrophes where European countries are hit in a quick succession of four windstorms, two floods and two earthquakes.

- EIOPA publishes its third annual analysis on the use and impact of LTGs measures and measures on equity risk

Similar to previous years' analysis, this year's results show that most of the measures are widely used: 737 (re)insurance undertakings in 23 countries with a European market share of 74% use at least one of the following voluntary measures:

- The matching adjustment (MA)
- The volatility adjustment (VA)
- The transitional measures on the risk-free interest rates
- The transitional measures on technical provisions
- The duration-based equity risk sub-module

Compared to the 2017 annual report, this year's annual report includes also an analysis on risk management aspects in view of the specific requirements for LTG measures set out in Article 44 and 45 of the Directive as well as an analysis of detailed features and types of guarantees of products with long-term guarantees.

- EIOPA calls for input on the Solvency II reporting and disclosure review 2020

As part of the 2020 Solvency II review EIOPA will review the reporting and disclosure requirements with the aim to assess whether the requirements remain fit-for-purpose and in particular whether the requirements allow a risk-based and proportionate approach.

EIOPA expects to publicly consult the conclusions of this assessment during 2019 but would like to give the opportunity to all stakeholders to provide input, general or specific, at an early stage of the discussions, on areas that could be further improved in both reporting and disclosure requirements.

The call for input closes on 21 February 2019.

- EIOPA publishes [third annual report on the use of limitations and exemptions from reporting under Solvency II](#)
EIOPA publishes its [third annual report](#) on the use of exemptions and limitations from the regular supervisory reporting by national competent authorities (NCAs) under Solvency II. In total 27% of the undertakings are allowed a limited quarterly reporting with the market share of such undertakings varying between 0% and 14.6% for non-life gross written premiums and between 0% and 4.5% for life technical premiums.
- EIOPA publishes [second annual report on the use of capital add-ons under Solvency II](#)
EIOPA publishes its [second annual report](#) on the use of capital add-ons by NCAs under Solvency II. The objective is to contribute to a higher degree of supervisory convergence in the use of capital add-ons between supervisory authorities in the different member states and to highlight any concerns regarding the capital add-ons framework. The analysis is based on 2017 year-end Solvency II data.
- EIOPA publishes [new sets of Q and A on Regulation](#).
Updates include the following:
 - [\(EU\) No 2015-2450 templates for the submission of information to the supervisory authorities](#). Questions 1703, 1721, 1722, 1748, 1450, 1712, 1732 and 1744 have been added during December 2018.
 - [\(EU\) 2015-35 supplementing Directive 2009-138](#). Questions 1677, 1675, 1350, 1700 and 1801 have been added during December 2018.
 - [Answers to questions on Guidelines on own risk and solvency assessment](#). Question 1065 has been added during December 2018.

PRA

- PRA publishes its [‘Solvency II: Equity release mortgages – PS31/18’](#)
This PRA Policy Statement (PS) provides feedback to responses to Consultation Paper (CP) 13/18 ‘Solvency II: Equity release mortgages.’ It also contains the PRA’s final Supervisory Statement (SS) 3/17 [‘Solvency II: Matching adjustment – illiquid unrated assets and equity release mortgages,’](#) which sets out the PRA’s expectations in respect of firms investing in illiquid, unrated assets within their Solvency II MA portfolios. The expectations set out in the updated SS3/17 will come into effect on 31 December 2019.
- PRA [consults on changes to ‘PRA Rulebook and Binding Technical Standards’ and ‘Resolution Binding Technical Standards’ in response to UK’s withdrawal from the EU](#)
The UK’s withdrawal from the EU requires changes to be made to UK legislation to ensure that it remains functional. The European Union (Withdrawal) Act 2018 (the Act) converts directly applicable EU law into UK law and preserves domestic law that relates to EU membership (including domestic law that was introduced to implement EU Directives). The Act also provides government ministers with powers to make changes to the law so that it continues to operate effectively after the UK’s withdrawal from the EU.
This CP contains two consultations to fix deficiencies arising from the UK’s withdrawal from the EU. This CP is relevant to all firms authorised and regulated by the PRA and the consultation closes on Monday 21 January 2019.
- PRA [publishes updated templates and LOG files to reflect the Monday 31 December 2018 effective date](#).
Following publication of [PS21/18 ‘Solvency II: Changes to reporting format,’](#) [SS6/18 ‘Solvency II: National Specific Templates LOG files’](#) and [PS24/18 ‘Solvency II: Updates to internal model output reporting,’](#) related templates and LOG files have been updated to reflect the Monday 31 December 2018 effective date. These are available on the [Regulatory reporting – insurance sector page](#).

FCA

- [FCA extends the SM&CR to all insurers regulated by FCA](#)

The SM&CR, which aims to increase individual accountability within the financial sector, already applies to the banking sector. The SM&CR has been extended to all insurers regulated by the FCA and PRA as of 10 December 2018.

- [FCA publishes 'Update on preparing your firm for Brexit'](#)

The FCA publishes further information on how firms may be affected by Brexit. This will help firms to consider the implications for their businesses and customers, and to plan accordingly. The following areas of its '[preparing your firm for Brexit](#)' are updated:

- Contract continuity: Firms which do business in the European Economic Area (EEA) under a passport need to consider how they will continue to service customers with existing contracts after Brexit.
- Execution of firms' contingency plans: Firms should consider their clients' best interests when executing their plans.
- Data sharing: The importance of considering whether to transfer personal data between the UK and EEA. Firms are expected to consider what contingency plans may be necessary.
- Customer communications: The FCA reminds firms of the importance of considering what communications to customers will be necessary to explain how Brexit might affect them.

- [FCA proposes changes to facilitate investment in patient capital](#)

FCA proposes changes to further enable retail investors to invest in patient capital through unit-linked funds. The FCA is also exploring how UK-authorized funds can be used to invest in patient capital.

- [FCA publishes the government's draft legislation for the FSCR in the case that the UK leaves the EU without a withdrawal agreement](#)

The government has published [draft legislation](#) for the FSCR. If the UK leaves the EU without a withdrawal agreement, this will enable firms that do not enter the temporary permissions regime to wind down their UK business in an orderly fashion.



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