Summary of regulatory developments

Updates for December 2021

This memo identifies and summarises any regulatory updates published during December 2021 that may be of relevance to life insurance companies.

The following table summarises the relevant updates identified in December.

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

Date	Description
1-Dec	The European Insurance and Occupational Pensions Authority (EIOPA) submits advice on two pensions tools to the European Commission: the pension tracking system and the pensions dashboard
2-Dec	EIOPA publishes its Q&A on regulation
7-Dec	EIOPA announces its sustainable finance activities for the coming three years
7-Dec	Financial Conduct Authority (FCA) to introduce new Consumer Duty to drive a fundamental shift in industry mindset
10-Dec	The FCA's Edwin Schooling Latter delivers speech on "LIBOR – 3 weeks to go"
10-Dec	EIOPA sets out a forward-looking digital transformation strategy
10-Dec	EIOPA consults on the application guidance on climate change risk scenarios in the own risk and solvency assessment (ORSA)
13-Dec	EIOPA highlights key risks for the insurance and pension sectors
16-Dec	EIOPA insurance stress test shows industry resilience but also reliance on transitional measures
17-Dec	FCA's new rules on climate-related disclosures to help investors, clients and consumers
17-Dec	The Prudent Regulation Authority (PRA) publishes PS 29/21 "Review of Solvency II: Reporting (Phase 1)"

Updates for December 2021

This section highlights articles of interest to life companies released in December 2021.

EIOPA

- EIOPA submits advice on two pensions tools to the European Commission: the pension tracking system and the pensions dashboard

  The pension tracking system aims to help customers understand what income they can expect in retirement. EIOPA in its advice provides a set of principles, good practices and recommendations, aiming to facilitate customers' digital access to personal pension information. In respect of product design, EIOPA recommends displaying key information in a simple manner to make a tracking system both appealing and understandable.

  The pensions dashboard aims to increase transparency on adequacy and sustainability gaps to support policy makers to make informed decisions. EIOPA advises development of a visual pension dashboard by presenting a complete set of indicators that allow for enhanced analysis and comparison.

- EIOPA publishes its Q&A on regulation

  Updates include the following:

  - (EU) No. 2015/35, supplementing Dir 2009/138/EC – Taking Up and Pursuit of the Business of Insurance and Reinsurance (SII). Questions 1998, 2085, 2095, 2343 and 2349.
  - Guidelines on basis risk. Question 2114.

- EIOPA announces its sustainable finance activities for the coming three years

  EIOPA announced its three-year plan to support integration of sustainable finance across all areas of its work. Key areas of activity include:

  - Integration of sustainability risks in the prudential framework of insurers and pension funds
  - Consolidation of the macro and micro prudential risk assessments of sustainability risks in tools and methodologies
  - Promotion of sustainability disclosures and a sustainable conduct of business framework
  - Support for supervision of sustainability risks and supervisory convergence in the EU
  - Addressing protection gaps
  - Promotion of the use of open source modelling and data in relation to climate change risks
  - Contribution to international convergence for the assessment and management of sustainability risks

- EIOPA sets out a forward-looking digital transformation strategy

  Digital transformation is generating change across economic and financial sectors, affecting consumers and businesses. In its strategy, EIOPA addresses the challenges posed by the digitalisation of the insurance and pensions sector, while enabling stakeholders to harness the benefits that arise from new technologies and business models.

  EIOPA has identified five long-term priorities, which will guide its contributions on digitisation topics:

  - Leveraging on the development of a sound European data ecosystem
  - Supporting artificial intelligence (AI) and promoting financial inclusion
  - Ensuring a forward-looking approach to financial stability and resilience
  - Realising the benefits of the European single market
  - Enhancing the supervisory capabilities of EIOPA and national competent authorities

- EIOPA consults on the application guidance on climate change risk scenarios in the ORSA

  The application guidance provides a detailed and practical basis on how to implement sustainable finance ambitions in practice. EIOPA's consultation includes concrete case studies for materiality assessment of climate change scenarios, which should also contribute to lowering implementation costs for insurance undertakings and improve the comparability of reported information.

  EIOPA's consultation gives general insights in the ORSA where undertakings have the possibility to address climate change risks and provides examples using both dummy non-life and life companies, which will help to design the steps for the materiality assessment and to run climate change scenarios.

  Feedback is welcome by 20 February 2022, with EIOPA's final application guidance expected June 2022.

- EIOPA highlights key risks for the insurance and pension sectors

  EIOPA published its December 2021 Financial Stability Report. On the macroeconomic side, the COVID-19 pandemic continues to challenge European economies. Uncertainties relating to the path of the pandemic and supply chain disruptions weigh on the growth outlook. Markets still operate in a low interest rate environment, which puts pressure in particular on life insurers and pension funds. Inflation remains elevated, but most forecasts see it moderating in the course of 2022.

  Environmental risks are expected to see the highest increase in materiality for the insurance and pension sectors. Therefore, supervisors need to ensure that robust risk management practices, especially at reinsurers, are in place to address underwriting risks. The insurance industry, however, could also experience increased demand for new services and play a crucial role in closing existing protection gaps.

  Cyber risks are also one of the most important risks for the insurance sector, reflecting widespread digitalisation trends and working from home. The understanding of cyber risks remains limited, but this area could also open up opportunities and increased demand.

- EIOPA insurance stress test shows industry resilience but also reliance on transitional measures

  EIOPA published the results of its 2021 Insurance Stress Test in which it assessed the industry's resilience to a prolonged COVID-19 scenario in a "lower for longer" interest rate environment.

  The European insurance industry entered the stress test exercise with a strong level of capitalisation, evidenced by a solvency ratio of 217.9% at yearend 2020. The post-stress aggregate solvency ratio decreased to 125.7%, bringing nine undertakings under the regulatory threshold of 100%. Improvement was seen under the "constrained balance sheet" approach, where reactive management actions were permitted, resulting in an aggregate solvency ratio of 139.3% and helping seven participants return their ratios to above 100%. This demonstrated that the industry has tools at its disposal to cope with adverse economic effects.

  None of the participants reported an Assets over Liability ratio below 100%, confirming the industry's ability to meet promises to policyholders amid economic uncertainty.

  The stress test did, however, reveal that a section of the market still heavily relies on transitional measures, which are to be phased out by 2032. EIOPA recommends that undertakings should take concrete steps towards reducing their dependence on temporary measures.

FCA

- FCA to introduce new Consumer Duty to drive a fundamental shift in industry mindset

  The FCA is concerned that currently financial services do not always work well for consumers, exploiting their behavioural biases and providing poor customer support. This FCA consultation therefore sets out proposals for new rules to tackle the causes of harmful practices. The rules require firms to provide consumers with information they can understand, to offer products and service that are fit for purpose and to provide helpful customer service.

  The consultation is open until 15 February 2022 and the FCA expects to confirm final rules by the end of July 2022.

- FCA's Edwin Schooling Latter delivers speech on "LIBOR – 3 weeks to go"

  Highlights from the speech include:

  - Sterling, Swiss franc, Japanese yen and euro LIBOR panels come to an end on 31 December this year.
  - Sterling interest rate markets have moved to SONIA, and most sterling legacy LIBOR contracts will have converted away from LIBOR by or at yearend.
  - Some firms will need to take further steps to convert remaining legacy LIBOR contracts in 2022.

- FCA's new rules on climate-related disclosures to help investors, clients and consumers

  FCA has published two Policy Statements confirming final rules and guidance to promote better climate-related financial disclosures. They include:

  - Issuers of standard listed shares must include a statement in their annual financial reports setting out whether their disclosures meet the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).
  - FCA-regulated asset managers and asset owners—including life insurers and pension providers—must disclose how they take climate-related risks and opportunities into account in managing investments. Disclosures about the climate-related attributes of their products are also required.

  The rules will come into effect from 1 January 2022. Asset managers and asset owners will have a phased implementation, with the rules initially applying to larger firms and coming into effect for smaller firms one year later.

PRA

- PRA publishes PS 29/21 "Review of Solvency II: Reporting (Phase 1)"

  The Policy Statement (PS) details the PRA's final decisions regarding the proposals it had previously shared in Consultation Paper (CP) 26/19 on the first-phase review of the Solvency II reporting requirements. The changes set out include:

  - Removal of the requirement to report certain Quantitative Reporting Templates (QRTs)
  - A reduction to the reporting frequency of the Minimum Capital Requirement (MCR) templates S.28.01 and S.28.02
  - An amendment to the proportionality threshold for S.16.01 on annuities stemming from non-life insurance obligations for pure reinsurers
  - Extension of the quarterly reporting waivers

  The PS was in force from the statement's publication on 17 December 2021 with the changes to the QRTs taking effect from reporting date 31 December 2021.

Milliman

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in life insurance and financial services, property & casualty insurance, healthcare, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

milliman.com

CONTACT

Claire Booth
claire.booth@milliman.com

Neil Christy
neil.christy@milliman.com

Oliver Gillespie
oliver.gillespie@milliman.com

Isabel Stansfield
isabel.stansfield@milliman.com