



Summary of regulatory developments

Updates for February 2021

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

The following table summarises the relevant updates identified in February.

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

Date	Description
1-Feb	The Prudential Regulation Authority (PRA) publishes Letter from Sid Malik on Feedback on the application of the Effective Value Test
3-Feb	The Financial Conduct Authority (FCA) sets out its approach to international firms
4-Feb	PRA publishes Letter from Sam Woods on Operational readiness for a zero or negative Bank Rate
4-Feb	The European Insurance and Occupational Pensions Authority (EIOPA) publishes Final Report and draft RTS on disclosures under SFDR
5-Feb	FCA report outlines practices firms can consider to reduce consumer harm caused by failed technology changes
9-Feb	EIOPA publishes its Risk Dashboard based on the third quarter of 2020 Solvency II data
15-Feb	EIOPA publishes its Q&A on regulation
16-Feb	PRA holds virtual meetings with senior advisors
17-Feb	EIOPA defines its supervisory convergence priorities for 2021
19-Feb	EIOPA identifies business model sustainability and adequate product design as two Union-wide strategic supervisory priorities relevant for national competent authorities (NCAs).
23-Feb	FCA launches guidance for firms on the fair treatment of vulnerable customers
25-Feb	EIOPA issues recommendations on the application of the Regulation on sustainability-related disclosures

Updates for February 2021

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

EIOPA

- The European Insurance and Occupational Pensions Authority (EIOPA) [publishes Final Report and draft RTS on disclosures under SFDR](#)

The Joint Committee of the European Supervisory Authorities (ESAs) delivered today to the European Commission (EC) the Final Report, including the draft Regulatory Technical Standards (RTS), on the content, methodologies and presentation of sustainability-related disclosures in the financial services sector under the EU Sustainable Finance Disclosure Regulation (SFDR).

The proposed RTS aim to strengthen protection for end-investors by improving Environmental, Social and Governance (ESG) disclosures to end-investors on the principal adverse impacts of investment decisions and on the sustainability features of a wide range of financial products. This will help to respond to investor demands for sustainable products and reduce the risk of greenwashing.

- EIOPA [publishes its Risk Dashboard based on the third quarter of 2020 Solvency II data](#)

The results show that insurers' exposures to macro risks decreased from a very high to a high level, while all other risk categories remain at medium level. Going forward, European supervisors expect an increase in credit, market and underwriting risks over the next 12 months, reflecting concerns over second lockdowns due to new waves of the pandemic as well as potential cliff effects once fiscal support measures will be over.

- EIOPA [publishes its Q&A on regulation](#)

Updates include the following:

- (EU) No 2009/138 – Solvency II Directive (Insurance and Reinsurance). Question [1760](#).

- EIOPA [defines its supervisory convergence priorities for 2021](#)

In 2021 EIOPA intends to complete the priorities stemming from the previous plan, while allowing for flexibility to continue monitoring and mitigating the impact from the COVID-19 pandemic. The priority areas fall, similarly to the previous plan, within the following building key areas:

- Practical implementation of the common supervisory culture and further development of supervisory tools
- Risks to the internal market and the level playing field which may lead to supervisory arbitrage
- Supervision of emerging risks

- EIOPA [identifies business model sustainability and adequate product design as two Union-wide strategic supervisory priorities relevant for national competent authorities \(NCAs\)](#).

Following the revised EIOPA Regulation, NCAs shall take those priorities into account when drawing up their work programmes and shall notify EIOPA accordingly. EIOPA will coordinate the supervisory actions with the NCAs on specific topics with the aim to provide a structured and consistent response to the key risks the European Union and the individual insurance markets are exposed to.

NCAs will focus their supervisory activities on monitoring the impact of the prolonged low-yield environment as well as of the COVID-19 crisis on the business model sustainability and development of insurers and institutions for occupational retirement provision (IORPs).

Furthermore, the NCAs will monitor the impact of the COVID-19 crisis on products and will ensure that product and oversight governance (POG) requirements and other relevant consumer protection and conduct of business-related requirements are adequately implemented to address the deficiencies which emerged in the crisis.

- EIOPA [issues recommendations on the application of the Regulation on sustainability-related disclosures](#)

The three ESAs have published a joint supervisory statement on the effective and consistent application and national supervision of the Regulation on SFDR. The statement aims to achieve an effective and consistent application and national supervision of the SFDR, promoting a level playing field and protecting investors.

In the statement, the three ESAs recommend the draft RTS be used as a reference when applying the provisions of the SFDR in the interim period between the application of SFDR (as of 10 March 2021) and the application of the RTS at a later date.

FCA

- The Financial Conduct Authority (FCA) [sets out its approach to international firms](#)

This document has been published alongside a feedback statement after considering responses to the consultation paper [CP20/20](#). The publication explains how the FCA will assess international firms against minimum standards when they apply for authorisation to operate in the UK market. Ongoing supervision and expectations of those already authorised are also discussed.

As part of the assessment, the FCA examined circumstances under which international firms could present higher risks of harm and how those risks might be mitigated. In addition, the factors that will be taken into account when deciding whether it may be more appropriate for an international firm to seek authorisation as a UK-incorporated firm for all or part of its business are considered. These factors include jurisdictional differences, customer protection issues and the nature and scale of business activities.

- [FCA report outlines practices firms can consider to reduce consumer harm caused by failed technology changes](#)

The FCA multi-firm review considers how firms implement technology change, the challenges caused when changes fail and steps that can be taken to protect consumers from harm and disruption.

Failed technology changes are one of the main causes for operational disruption. COVID-19 has required firms to quickly move to new ways of working. This has highlighted the importance of a strong governance and risk management strategy in place in preparation for technology changes. Robust testing is also an essential part of the process which can present its own challenges.

Firms should consider these findings when assessing their future technology changes, especially as remote and flexible working increase in the industry. This includes investing in technology to protect themselves, consumers and the markets.

- [FCA launches guidance for firms on the fair treatment of vulnerable customers](#)

The FCA published final guidance clarifying expectations on the fair treatment of vulnerable customers. Recent [research](#) shows that 27.7 million UK adults now have characteristics of vulnerability such as poor health, experiencing negative life events, low financial resilience or low capability. These factors may limit the ability of individuals to make reasonable decisions or may put them at greater risk of mis-selling.

Firms should understand what harms their customers are likely to be vulnerable to, and ensure that customers in vulnerable circumstances can receive the same fair treatment and outcomes as other customers. The expectation is for this to happen through the whole customer journey from product design through to customer engagement and communications.

PRA

- The Prudential Regulation Authority (PRA) [publishes Letter from Sid Malik on Feedback on the application of the Effective Value Test](#)

In Supervisory Statement [3/17](#) "Solvency II: Illiquid unrated assets," the PRA sets out a diagnostic test, the Effective Value Test (EVT), to assess the appropriateness of the matching adjustment benefit life insurers derive from restructured equity release mortgages (ERMs).

After reviewing the 2019 year-end results alongside 2020 models and data, the PRA has published a letter identifying key areas of feedback. The aim is to promote clarity and consistency across EVT submissions.

The recommendations focus on:

- Structure of economic value
- Use of appropriate assumptions
- Presentation and submission of results

Firms should update their EVT models to incorporate these recommendations by 31 December 2021.

▪ PRA [publishes Letter from Sam Woods on Operational readiness for a zero or negative Bank Rate](#)

This letter provides feedback following the PRA's information request dated 12 October 2020 to understand firms' operational readiness to implement a zero or negative Bank Rate. The letter is not indicative that the Monetary Policy Committee (MPC) will employ a zero or negative policy rate, but sets out the timeframe for firms to develop solutions for implementation in the said event.

The responses demonstrated that most firms are already able to deal with near-zero rates and that, generally, a zero Bank Rate would pose less of an operational challenge than a negative rate.

Should a negative Bank Rate present itself, it was found the majority of firms would need to make some changes to systems and processes in order to implement either a strategic or tactical solution. Strategic solutions are permanent changes, whereas tactical solutions are typically short-term fixes. The PRA advises that the implementation period should be at least six months for a tactical solution to ensure firms' safety and soundness and deter material risks. Strategic solutions could have a significantly longer timeframe, hence the PRA does not expect firms to commence work to implement them unless they are already present in their business plans.

▪ PRA [holds virtual meetings with senior advisors](#)

During October and November 2020 PRA Senior Advisors and independent Non-Executive Directors (iNEDs) from around 40 PRA-regulated banks and insurance firms held virtual meetings to discuss issues and risks that were on their agendas. This letter summarises key themes that emerged from these meetings.

The coronavirus outbreak was a dominant area of discussion due to the current heightened economic risk, and unknown longer-term implications. A number of areas were covered providing an insight to the risk issues at the top of iNEDs' minds. They included:

- The effect of the economic downturn on business models
- Operational resilience in light of the new working environment
- Governance and people challenges
- Climate-related financial risk
- Feedback on the regulatory landscape



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