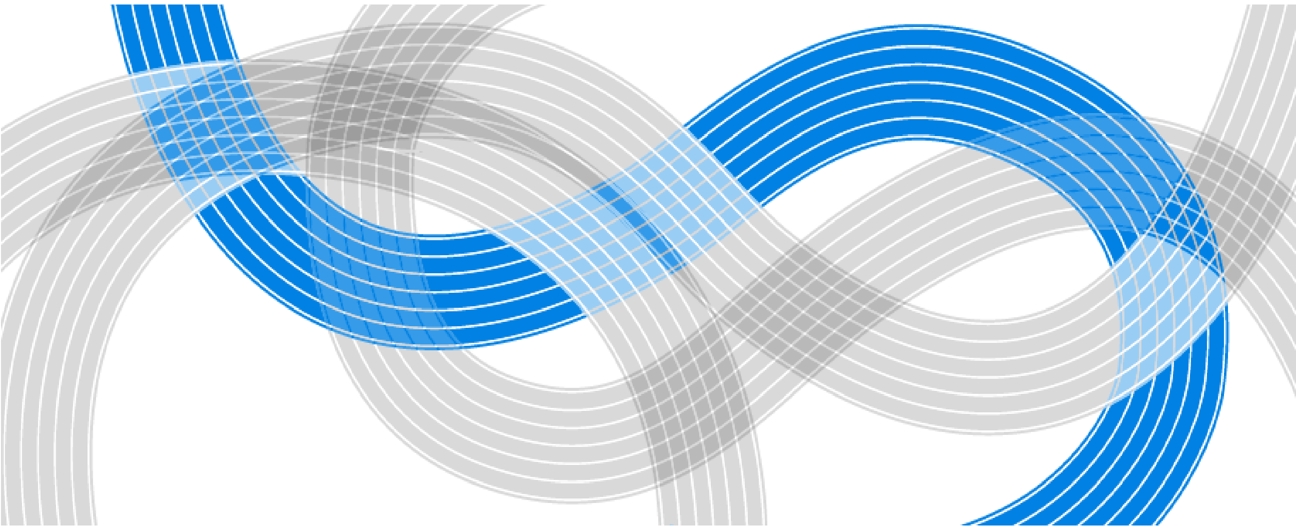

Summary of regulatory developments

Updates for September 2022

This memo identifies and summarises any regulatory updates published during September 2022 that may be of relevance to life insurance companies.

The following table summarises the relevant updates identified in September.

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

Date	Description
6-Sep	The European Insurance and Occupational Pensions Authority (EIOPA) publishes report on data quality in Solvency II reporting
8-Sep	The Prudential Regulation Authority (PRA) discusses its future approach to policy
12-Sep	The European Supervisory Authorities (ESAs) publish their Autumn joint risk report for 2022
22-Sep	EIOPA publishes supervisory statements on exclusions related to systemic events and the management of non-affirmative cyber exposures
29-Sep	Financial Conduct Authority (FCA) Execute Director Sheldon Mills delivers speech: "What firms and customers can expect from the consumer duty and other regulatory reforms"
29-Sep	The FCA announces decision on cessation of 1- and 6-month synthetic sterling LIBOR at end-March 2023
29-Sep	EIOPA publishes its Q&A on regulation
29-Sep	The FCA warns insurers to protect customers' well-being during cost-of-living squeeze
30-Sep	EIOPA sets out its strategy for 2023-2016
30-Sep	The ESAs propose disclosures for fossil gas and nuclear energy investments

Updates for September 2022

This section highlights articles of interest to life companies released in September 2022.

ESAs

- The ESAs publish their Autumn joint risk report for 2022

  The report highlights that the deteriorating economic outlook, high inflation and rising energy prices have increased vulnerabilities across the financial sectors. The ESAs advise national supervisors, financial institutions and market participants to prepare for challenges ahead.

  In light of these risks and uncertainties, the ESAs advise the following policy actions:

  - Preparations should be made for a possible deterioration of asset quality
  - The impact of further increases in policy rates and of potential sudden increases in risk premia should be closely monitored
  - The impact of inflation risks should be closely monitored
  - Risk to retail investors should be monitored, particularly with regard to products where consumers may not fully realise the extent of the risks involved, such as crypto assets
  - Environmental and cyber risks should be carefully managed

- The ESAs propose disclosures for fossil gas and nuclear energy investments

  The ESAs have delivered to the European Commission their final report with draft Regulatory Technical Standards (RTS) regarding the disclosure of financial products' exposure to investments in fossil gas and nuclear energy activities under the Sustainable Finance Disclosure Regulation (SFDR).

  The ESAs propose to add specific disclosures to provide transparency about investments in taxonomy-aligned gas and nuclear economic activities. These disclosures include indicating whether the financial product intends to invest in such activities and, if so, including a graphical representation of the proportion of investments in such activities. The hope is that these disclosures will help investors to make informed decisions.

EIOPA

- EIOPA publishes report on data quality in Solvency II reporting

  This report analysis data quality since the implementation of Solvency II. Multiple key performance indicators and an overall data quality score show significant improvements over the years. The quality benchmark indicator for annual solo reporting rose from 82% back in 2016 to 94% in 2020. Automated data quality processing solutions and advanced analytic tools together with built-in validations in the XBRL taxonomy have all been effective in raising the quality of data.

  EIOPA is committed to further improving the quality of data it receives via Solvency II reporting and will continue to monitor the evolution of these indicators.

- EIOPA publishes supervisory statements on exclusions related to systemic events and the management of non-affirmative cyber exposures

  EIOPA publishes supervisory statement (SS) on exclusions in insurance products in relation to risks arising from systemic events. The aim of the SS is to promote supervisory convergence in how such exclusions are assessed and treated, which should ultimately follow a customer-oriented approach. EIOPA recommends contract clarity for policyholders and consideration of the target market's needs when developing new products with exclusions.

  EIOPA also published a SS on the management of non-affirmative cyber exposures, which can relate to insurance policies designed without explicitly taking cyber risk into consideration. The SS focuses on supervisory expectations and emphasises the importance of cyber underwriting risk management and risk mitigation and the need for a top-down strategy and risk appetite definition for undertakings to underwrite cyber risk.

- EIOPA sets out its strategy for 2023-2016

  The strategy is designed to strengthen the resilience and sustainability of the insurance and pensions sectors, whilst ensuring the protection of consumer interests. EIOPA's strategic priorities include:

  - Sustainable finance
  - Digital transformation
  - Supervision
  - Policy
  - Financial stability
  - Internal governance

  EIOPA also highlighted key activities planned for 2023, including:

  - Integrating environmental, social, and corporate governance (ESG) risks into the prudential frameworks on insurers and pension funds
  - Initiating one-off coordinated climate change stress test
  - Implementation of the Digital Operational Resilience Act (DORA)
  - Developing a sound regime for the use of artificial intelligence (AI) by the insurance sector
  - Addressing consumer detriment from cross-border activities
  - Following up on the potential materialisation of downside risk stemming from the ongoing crises in the context of high inflation and low growth

- EIOPA publishes its Q&A on regulation

  Updates include the following:

  - (EU) No 2015/35 – Taking-up and pursuit of the business of Insurance and Reinsurance (SII). Questions 2432, 2415, 2363 and 2403.
  - (EU) No 2009/138 – Solvency II Directive (Insurance and Reinsurance). Questions 2396, 2272 and 2211.
  - (EU) No 2015/2450 – Templates for the submission of information to the supervisory authorities. Question 2465.
  - (EU) 2020/852 – Taxonomy Regulation. Question 2474.

FCA

- FCA Execute Director Sheldon Mills delivers speech: "What firms and customers can expect from the consumer duty and other regulatory reforms"

  Highlights from the speech include:

  - The duty provides a fairer basis for competition and the flexibility of an outcomes-focused, rather than prescriptive, approach. It will provide a boost to growth and innovation.
  - The duty comes at a challenging time for consumers and the wider economy. While it is not yet in force, firms should be stepping up now to support customers and ensure good outcomes.
  - Boards and senior management have a critical role in overseeing firms' implementation of the duty. The FCA is committed to working closely with the industry during the implementation period and beyond to get this right.

- The FCA announces decision on cessation of 1- and 6-month synthetic sterling LIBOR at end-March 2023

  On 31 December 2021, most LIBOR settings were published for the final time. However, to help mitigate the risk of widespread disruption to legacy LIBOR contracts, which had not transitioned by end-2021, a temporary synthetic LIBOR continued to be published.

  Following a public consultation in June 2022, it has been decided that the 1- and 6-month synthetic sterling LIBOR settings will cease immediately after a final publication on 31 March 2023. Market participants need to ensure that they are prepared for this. The cessation of 3-month synthetic sterling LIBOR is still under consideration.

- The FCA warns insurers to protect customers' well-being during cost-of-living squeeze

  The FCA is concerned that as pressure mounts on household budgets some customers may cut back on the insurance they need. Consequently, the FCA has written to insurance industry CEOs to make sure their customers are protected from unnecessary products or add-ons and unfair penalties.

  Firms can help customers in financial difficulty by:

  - Reassessing customers' needs
  - Considering whether there are other products that better meet the customer's needs
  - Providing clear information to consumers about the additional cost of premium finance
  - Working with customers to avoid the need to cancel necessary cover
  - Waiving fees associated with adjusting a customer's policy in line with the reassessments
  - Considering whether cancellation fees should be removed for customers in financial difficulty

  Where poor practise is found, the FCA will quickly intervene to protect customers from harm.

PRA

- The PRA discusses its future approach to policy

  The Financial Services and Markets (FSM) Bill will implement the outcomes of the Future Regulatory Framework (FRF) Review. The review was established by the government to consider how the UK's financial services regulatory framework should adapt for the future, and in particular to reflect the UK's position outside of the EU.

  The proposals in this Discussion Paper (DP) 4/22 describe the PRA's new approach to policy making under the FSM Bill and in light of its wider rulemaking responsibilities. The PRA proposes moving to a more British style of regulation, with most of the technical rules made by independent regulators. The belief is that this will enable them to be more agile and deliver policies which are better suited to the UK's financial sector.

  Firms are welcome to comment on this DP by 8 December 2022.

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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.

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