Summary of regulatory developments

Updates for January 2023

This memo identifies and summarises any regulatory updates published during January 2023 that may be of relevance to life insurance companies.

The following table summarises the relevant updates identified in January.

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

Date	Description
6-Jan	The Prudential Regulation Authority (PRA) statement on the recalculation of the transitional measure on technical provisions (TMTP)
10-Jan	The PRA publishes letter to CEOs of PRA-regulated insurance firms, “Insurance Supervision: 2023 priorities”
11-Jan	The Financial Conduct Authority (FCA) consults on protections for insurance customers in financial difficulty
13-Jan	The European Insurance and Occupational Pensions Authority (EIOPA) publishes its Q&A on regulation
17-Jan	EIOPA publishes “Cost and Past Performance Report” relating to insurance products in 2021
18-Jan	EIOPA publishes its Consumer Trends Report 2022
19-Jan	The FCA undertakes thematic review of retirement income advice
23-Jan	The PRA publishes Insurance Stress Test (IST) 2022 feedback
25-Jan	The FCA highlights areas of focus for firms implementing the Consumer Duty
26-Jan	EIOPA issues its opinion on draft standards governing corporate sustainability disclosures

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Updates for January 2023

This section highlights articles of interest to life companies released in January 2023.

EIOPA

- **EIOPA publishes its Q&A on regulation**

  Updates include the following:

  - (EU) No 2015/2450 – Templates for the submission of information to the supervisory authorities. Questions 2536, 2531, 2528, 2404, 2310 and 2245.
  - (EU) No 2009/138 – Solvency II Directive (Insurance and Reinsurance). Question 2345.
  - (EU) No 2015/2452 – Procedures, formats and templates of the Solvency and Financial Condition Report. Question 2316.

- **EIOPA publishes "Cost and Past Performance Report" relating to insurance products in 2021**

  EIOPA's report provides an overview of the performance and costs of over 1,000 insurance-based investment products (IBIPs). The coverage period goes from 2017 to year-end 2021 for past performance and 2021 for costs.

  Results show that the products benefitted from the post-pandemic market recovery and offered positive returns to investors in 2021. Unit-linked products delivered an average net return of 9.4%, while hybrid and profit participation products delivered 4.0% and 1.3%, respectively. However, whilst net returns in 2021 were overall high, inflation is expected to weigh on real returns in the future.

  Preliminary findings based on a limited sample indicate that products with sustainability features were both higher-yielding and cheaper in 2021 than their peers not using the Environmental, Social and Corporate Governance (ESG) framework. The report also found that cross-border products operate with higher cost levels, which is likely linked to higher distribution costs.

- **EIOPA publishes its Consumer Trends Report 2022**

  The report reveals that access to affordable insurance and pension products aligned with consumers' needs remains low. The worsening macroeconomic landscape is putting pressure on consumers, who might have to delay purchasing insurance cover, miss regular premium payments or suspend pension contributions.

  Against this backdrop, consumer-centric product design and distribution processes are vital. While the report notes positive developments in this area, instances of poor product design and concerns regarding the value for money of certain unit-linked products remain. The continued digitalisation of the insurance sector is also leading to expanded access to products and services with improved pricing. However, digitalisation trends require close monitoring due to cyber risks and possible discriminatory pricing practices.

  Finally, a strong increase in the sale of products with sustainability features is reported. Given the rise in demand, it is important to carry out supervisory activities to tackle any "greenwashing." Emerging risks have also raised new concerns around exclusions and possible increases in protection gaps.

- **EIOPA issues its opinion on draft standards governing corporate sustainability disclosures**

  EIOPA's opinion focuses on assessing whether the European Sustainability Reporting Standards (ESRS) developed by the European Financial Reporting Advisory Group (EFRAG):

  - Promote disclosure of material sustainability information of high quality
  - Are consistent and interoperable with other EU legislation and global standards
  - Are conducive to a consistent and proportionate application by undertakings

  Overall, EIOPA considers that the draft ESRS do meet the above objectives, although the opinion notes a number of aspects which could be enhanced.

FCA

- **The FCA consults on protections for insurance customers in financial difficulty**

  The FCA is proposing to update guidance introduced during the COVID-19 pandemic to apply to all insurance customers in financial difficulty. This comes in response to the current cost-of-living crisis affecting many customers, and not just those facing problems due to the pandemic.

  Under the new guidance, insurers should consider whether a different product is more suitable for customers facing financial difficulties and whether they should waive cancellation and other fees associated with adjusting customers' policies. Firms should also make sure the information they provide to customers is fair, clear and not misleading to enable informed decisions.

  The consultation closes 11 March 2023.

- **The FCA undertakes thematic review of retirement income advice**

  This review will explore how financial adviser firms are delivering retirement income advice and will assess the quality of outcomes consumers are getting. This comes in response to the government's pension freedom reforms, which have widened the range of retirement options available. There has also been a significant shift to consumers drawing incomes from pension funds which remain invested. Advice in this area can be complex, so it is important that firms understand the needs of their customers.

  The review will begin in the first quarter of 2023 with the aim to publish a report setting out findings by the year-end. Firms selected for the review can expect to be contacted early in 2023.

- **FCA highlights areas of focus for firms implementing the Consumer Duty**

  The FCA reviewed a sample of implementation plans and found that many firms understand and embrace the shift to delivering good customer outcomes, having established extensive plans to comply with the new Duty. However, some firms are behind in their planning and risk struggling to apply the Duty effectively once the rules come into force.

  Over the implementation period, the FCA wants firms to particularly focus on:

  - Prioritising areas that will make the biggest impact on outcomes for consumers
  - Making the changes needed so consumers receive communications they can understand, customer support they need and products and services that offer fair value
  - Sharing information and working closely with commercial partners

  The Consumer Duty rules come into force on 31 July 2023 for new and existing products or services that are open to sale or renewal, and 31 July 2024 for closed products or services.

PRA

- **The PRA's statement on the recalculation of the TMTP**

  In line with Supervisory Statement (SS) 6/16, "Maintenance of the transitional measure on technical provisions under Solvency II," the PRA has been monitoring market conditions since the previous biennial TMTP recalculation in June 2022. The PRA also considers whether changes in market conditions since then can reasonably be considered to have been sustained. In the PRA's view, movements in risk-free rates during the second half of 2022 meet the threshold for a material change in risk profile as set out in SS6/16.

  Therefore, the PRA would be willing to accept applications from firms to recalculate TMTP as at 31 December 2022. As set out in SS6/16, as part of any application the PRA expects firms to be able to demonstrate that a material change in risk profile has occurred. The PRA also expects applications to use firms' existing TMTP calculation methodologies.

- **The PRA publishes letter to CEO's of PRA-regulated insurance firms, "Insurance Supervision: 2023 priorities"**

  The PRA's overarching supervisory aim is for the insurance sector to be able to provide financial protection and security to policyholders at all times, including those of stress. Insurers need to adapt to changes that threaten to disrupt business models, while maintaining high standards of governance, risk management and resilience that result in their continued provision of insurance services to the economy.

  Within this letter, the PRA lists its focus areas for 2023, including:

  - Financial resilience
  - Risk management
  - Implementing financial reforms
  - Reinsurance risk
  - Operational resilience
  - Ease of exit for insurers

- **The PRA publishes Insurance Stress Test (IST) 2022 feedback**

  In total 54 insurers took part in the IST launched in May 2022, including 16 life insurers. Life insurers were asked to assess their solvency positions following an adverse economic scenario and an increase in longevity.

  The results indicate that the UK insurance sector is resilient to the PRA-specified scenarios, subject to a number of mitigating measures, whilst also highlighting the need for ongoing focus in several priority areas, including financial resilience, risk management and reinsurance risk. In aggregate, life insurer's solvency coverage fell from 162% to 123%. The impacts of credit downgrades, property shocks and longevity improvement in the stress scenario were the largest drivers of the decline in solvency coverage.

  The PRA warns that, whilst these scenarios remain relevant to insurers, changes in the external and economic environment during 2022 illustrate the importance of firms developing and adapting their own scenario analyses. For insurers, the main sectoral risks not explicitly considered within this exercise were liquidity and the higher inflationary environment. The PRA intends to engage with firms during the second quarter of 2023 on the timing of the next exercise which will consider these risks.

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