Summary of regulatory developments

Updates for March 2023

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

The following table summarises the relevant updates identified in March.

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

Date	Description
6-Mar	European Insurance and Occupational Pensions Authority (EIOPA) launches new survey to map financial innovation in insurance
9-Mar	The Financial Conduct Authority (FCA) authorises first Long-Term Asset Fund (LTAF)
13-Mar	The Prudential Regulation Authority (PRA) publishes report on climate-related risks and the regulatory capital frameworks
16-Mar	EIOPA publishes supervisory statement on unfair "price walking" practices
29-Mar	EIOPA publishes staff paper on nature-related risks and their impact on insurers
29-Mar	The FCA updates its Sustainability Disclosure Requirements (SDR) and investment labels consultation
29-Mar	The PRA publishes thematic findings from the 2022 cyber stress test (CST22)
30-Mar	EIOPA publishes its Q&A on regulation
30-Mar	The FCA welcomes the government's updated Green Finance Strategy

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Updates for March 2023

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

EIOPA

- **EIOPA launches new survey to map financial innovation in insurance**

  Digital innovation is altering the way businesses operate. Embracing new business models and technologies can significantly impact the insurance value chain. To keep up and ensure that regulatory and supervisory frameworks present the opportunities and risks of digitalisation, EIOPA is launching a new Digitalisation Market Survey to monitor European insurers' digital transformation strategies and to understand the implementation of these business models and technologies.

  As insurers take on more digital products and solutions, this survey will help ensure that consumers stay well-protected and continue to receive good outcomes. It should also help to identify any emerging risks for insurers and potential regulatory obstacles that keep them from harnessing the benefits of financial innovation.

- **EIOPA publishes supervisory statement on unfair "price walking" practices**

  In practice, the price a customers pay for insurance reflects the individual risk profile and the overall costs incurred by insurers. However, some insurers may alter prices unfairly based on unrelated characteristics. Increasingly sophisticated artificial intelligence (AI) technologies are emphasising this risk by enabling firms to deploy pricing practices on a large scale.

  EIOPA's supervisory statement clarifies supervisory expectations to preempt unfair differential pricing practices. Providers falling under the scope of the Insurance Distribution Directive (IDD) should act in accordance with the best interests of their customers. Insurers can continue to offer premium discounts to attract and retain customers, but they should have adequate governance and product oversight measures in place to ensure that customers are not treated unfairly. An example of unfair practice includes repeated premium increases based on the customer's low propensity to shop around or change provider.

- **EIOPA publishes staff paper on nature-related risks and their impact on insurers**

  The failure to account for, mitigate and adapt to the consequences of nature loss and climate change can have economic implications that may put overall financial stability at risk. EIOPA therefore believes it is important to gain a better understanding of how nature-related risks can affect (re)insurers and to examine ways in which the insurance sector can contribute to the conservation and restoration of nature through investments and underwriting activity.

  The staff paper describes how nature-related risks can translate into risks for (re)insurers' assets and liabilities. The paper sets out a framework to identify key areas in supervisory and regulatory activity that require attention when addressing nature-related risks and their impacts on the insurance sector.

- **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 2589, 2299, 2571, 2568, 2594, 2553, 2552, 2526 and 2320.
  - (EU) No 2015/35 – Supplementing Dir 2009/138/EC – Taking up & pursuit of the business of insurance and reinsurance (SII). Questions 1983, 2572, 2523, 2518 and 2455.
  - (EU) No 2016/97 – Insurance Distribution Directive. Question 2583.
  - Symmetric Adjustment of the Equity Capital Charge. Question 2607.

FCA

- **The FCA authorises first LTAF**

  The LTAF is a new category of open-ended authorised fund designed to invest efficiently in long-term assets. The FCA enabled the innovation by creating a new regulatory regime which came into force in October 2021.

  The FCA has worked with the Bank of England (BoE), the Treasury and industry, through the Productive Finance Working Group, to create an environment through which investors, who understand the risks, can invest efficiently and more confidently in in longer-term, less liquid assets. The ability to invest in illiquid assets is important for supporting economic growth and the transition to a low-carbon economy.

  The FCA is currently inviting views on how to further improve asset management regulation with a more modern and tailored regime, continuing to make sure the regime takes account of developments in technology and supports innovation. Views are welcome by 22 May 2023.

- **The FCA updates its SDR and investment labels consultation**

  In October 2022, the FCA consulted on a number of new measures aimed at tackling greenwashing. This included sustainable investment product labels, additional disclose requirements and restrictions on how certain terms such as “ESG” and “sustainable” can be used in marketing.

  The FCA has received a number of responses to the consultation and recognises that, whilst the regime needs to predominantly protect consumers, practical challenges for firms also need to be considered. This includes, but is not limited to, considering the approach to the marketing restrictions and refining some of the specific criteria for the labels. The FCA therefore intends to publish a policy statement in Q3 of this year to clarify rules and effective dates after careful consideration of feedback.

- **The FCA welcomes the government’s updated Green Finance Strategy**

  Regulators play a key role in understanding and managing the financial risks and opportunities associated with climate change, which is crucial in maintaining the resilience of the financial system and enabling the government to achieve a smooth transition to net zero.

  In a joint statement, the FCA, the Financial Reporting Council (FRC), the BoE and The Pensions Regulation (TPR) stand consistent with their objectives to support implementation of relevant policy initiatives, such as the economy-wide sustainability disclosure requirements, and in their endorsement of the forthcoming disclosure standards of the International Sustainability Standards Board (ISSB) in its pursuit of the objectives of the Green Finance Strategy.

PRA

- **The PRA publishes report on climate-related risks and the regulatory capital frameworks**

  This report updates the BoE’s work on climate risk and the capital frameworks, building on the analysis set out in its Climate Change Adaption Report (CCAR) published in October 2021.

  The CCAR found that current frameworks already capture climate-related risks to some extent, including through capital models and credit ratings. However, risk capture may be incomplete due to difficulties in estimating climate risks and there may be challenges in capturing risks in the existing capital regimes (regime gaps).

  This report sets out areas where the BoE’s work has progressed since the CCAR, including on time horizons, ways of tackling uncertainty and the impacts of climate risks on the existing micro-prudential and macro-prudential frameworks.

  The BoE recognizes that substantial further work is needed in this area and open questions remain, notably on potential regime gaps to capture systemic risks from climate change and unintended consequences. The BoE will continue to address these questions as part of its supervision and policy-making.

- **The PRA publishes thematic findings from the 2022 cyber stress test (CST22)**

  CST22 was an exploratory, voluntary test based on a hypothetical data integrity scenario in retail payments. The objectives were to explore:

  - Firms' ability to quickly identify the nature of the disruption they faced
  - The potential financial stability impacts of firms not meeting the impact tolerance set by the Financial Policy Committee (FPC) in the case where data integrity had been compromised

  The results highlighted the importance of industry coordination, timely communications, contingencies and mitigants in limiting the impact of the incident.

  Firms should consider these findings in their continuing implementations of operational resilience and related policies.

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