



# Summary of regulatory developments

## Updates for June 2023

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

The following table summarises the relevant updates identified in June.

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

Date	Description
1-Jun	The European Supervisory Authorities (ESAs) <a href="#">publish Progress Reports on Greenwashing</a>
13-Jun	The European Insurance and Occupational Pensions Authority (EIOPA) and the European Banking Authority (EBA) <a href="#">publish Data Point Modelling (DPM) Standard 2.0</a>
14-Jun	EIOPA <a href="#">publishes its 2022 Annual Report</a>
15-Jun	The Prudential Regulatory Authority (PRA) <a href="#">publishes letter to Chief Risk Officers (CROs) on the thematic review of funded reinsurance arrangements</a>
19-Jun	The ESAs <a href="#">consult on policy products under the Digital Operational Resilience Act (DORA)</a>
22-Jun	EIOPA <a href="#">publishes its June 2023 Financial Stability Report</a>
26-Jun	The Financial Conduct Authority (FCA) <a href="#">welcomes launch of International Sustainability Standards Board (ISSB) standards</a>
28-Jun	EIOPA <a href="#">decides to undertake joint mystery shopping exercise on sales of insurance</a>
28-Jun	The FCA <a href="#">publishes one-month warning for Consumer Duty</a>

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

Date	Description
29-Jun	The FCA <a href="#">widens retail and pensions access to Long-Term Asset Funds (LTAF)</a>
29-Jun	The PRA <a href="#">publishes consultation paper (CP) 12/23, "Review of Solvency II: Adapting to the UK insurance market"</a>
30-Jun	The PRA <a href="#">publishes CP 11/23, "PRA statement on the review of rules"</a>
30-Jun	EIOPA <a href="#">publishes its Q&amp;A on regulation</a>

## Updates for June 2023

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

### ESAs

- **The ESAs [publish Progress Reports on Greenwashing](#)**

The reports provide initial views on greenwashing from an insurance and pension perspective, including how it occurs, its impact and challenges related to its supervision as well as its implications for the regulatory framework. Greenwashing is a practice that can be misleading to consumers, investors and other market participants as sustainability-related actions or communications may not fully reflect the underlying sustainability profile of an entity, product or financial service.

The National Competent Authorities (NCAs) and ESAs are therefore working together to ensure consumer and investor protection, support market integrity and maintain a trusted environment for sustainable finance.

The final greenwashing reports will be published in May 2024, including final recommendations and possible changes to the EU regulatory framework.

- **The ESAs [consult on policy products under the DORA](#)**

The DORA aims to enhance the digital operational resilience of entities across the EU financial sector and to further harmonise key digital operational resilience requirements.

DORA has mandated the ESAs to jointly develop 13 policy instruments in two batches. The first batch, covered in this consultation, includes four draft regulatory technical standards (RTS) and one set of draft implementing technical standards (ITS). These technical standards aim to ensure a consistent legal framework in the areas of information and communication technology (ICT) risk management, major ICT-related incident reporting and ICT third-party risk management.

The consultation runs until 11 September 2023, with the aim of finalising the standards by 17 January 2024.

### EIOPA

- **EIOPA and the EBA [publish DPM Standard 2.0](#)**

The DPM Standard is a key component of EIOPA's and EBA's data dictionaries and is at the core of their reporting frameworks. The enhancement standard, DPM 2.0, is in response to growing volume, granularity and complexity of the data and aims to create a robust and future-proof data dictionary and a fully consistent approach for modelling reporting requirements.

In the longer term, the DPM Standard should play a key role in the construction of a single cross-sectoral dictionary for the whole financial sector. By providing a harmonised approach for modelling reporting requirements, the Standard should facilitate the further integration of concepts and definitions in a common data dictionary.

- **EIOPA publishes its 2022 Annual Report**

EIOPA publishes its 2022 Annual Report, setting out its activities and achievements over the past year, which include:

- Warning report in response to concerns surrounding bancassurance
- Engagement with NCAs and third-country parties to enhance the effectiveness of supervision
- Identification of trends and risks in the context of a higher cost of living and slower growth economy
- Supervisory Statement on inflation
- Institutions for Occupational Retirement Provision (IORP) climate stress test
- Europe-wide dashboard on natural catastrophe insurance protection gaps
- Research into open insurance, the use of blockchain and machine learning

- **EIOPA publishes its June 2023 Financial Stability Report**

The report outlines concern for persistent inflation, the fraught geopolitical landscape, rising financing costs and the recent financial turmoil which poses a challenge to growth prospects in Europe and business conditions of financial institutions.

However, despite the current environment, insurers and pension funds have remained resilient. Key messages from the report include:

- (Re)insurers maintain robust solvency positions despite weaker investment returns and high inflation
- Premiums grew for non-life but stagnated for life business
- Underwriting profitability varied greatly across segments and declined overall
- Fixed income assets remain the dominant category of investments for insurers
- Insurers emerged as net sellers of corporate bonds and gilts as they moved from more interest rate-sensitive assets towards other, sometimes less liquid investment options
- Insurers carry direct, material exposures to the banking sector with 13% of their investments exposed

- **EIOPA decides to undertake joint mystery shopping exercise on sales of insurance**

Mystery shopping is a technique that involves the use of trained “mystery shoppers” acting as potential customers. It will allow EIOPA to gather detailed information on how providers or distributors sell products and provide services to consumers, in order to analyse consumers’ outcomes.

The exercise will be conducted in eight Member States and will follow a common methodology and criteria developed by EIOPA and its Members. The results of the exercise will be available in the first half of 2024.

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

Updates include the following:

- (EU) No 2015/35 – supplementing Dir 2009/138/EC – taking up & pursuit of the business of Insurance and Reinsurance (SII). Questions [2573](#), [2513](#), [2444](#), [2342](#), [2618](#) and [2580](#).
- (EU) No 2015/2450 – Templates for the submission of information to the supervisory authorities. Questions [2686](#), [2678](#), [2613](#), [2632](#), [2643](#), [2591](#), [2554](#), [2627](#), [2566](#), [2645](#), [2527](#), [2639](#) and [2211](#).
- Guidelines on valuation of technical provisions. Question [2582](#).
- (EU) No 2009/138 – Solvency II Directive (Insurance and Reinsurance). Questions [2529](#), [1812](#) and [2558](#).
- Guidelines on loss-absorbing capacity of technical provisions and deferred taxes. Question [2565](#).

## FCA

- **The FCA welcomes launch of ISSB standards**

This includes the General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1), and the requirements for Climate-related Disclosures (IFRS S2). These standards answer the market demand for complete, consistent, comparable and reliable corporate sustainability disclosures.

The FCA believes that including this information in annual financial reports will inform companies' own decisions and capital allocation; feed data services; underpin instrument and product design; and steer corporate decision making.

- **The FCA publishes one-month warning for Consumer Duty**

The Consumer Duty aims to ensure that consumers receive communications they can understand, products and services that meet their needs and offer fair value and the customer support they need, when they need it.

The new rules and guidance come into force on a phased basis:

- 31 July 2023 for new and existing products or services that are open to sale or renewal
- 31 July 2024 for closed products or services

The FCA urges firms to ensure that they are prepared for the upcoming deadline.

The FCA's [finalised guidance \(FG22/5\)](#) contains a range of suggested questions for firms to consider as they embed the Duty, which should help to identify gaps or areas for improvement. Firms can also expect to be asked questions like these in their interactions with the regulator.

- **The FCA widens retail and pensions access to LTAFs**

The FCA set out new rules to give retail investors and more defined contribution pension schemes access to LTAFs. LTAFs were first introduced in 2021 as a new type of open-ended authorised fund designed to invest long-term and illiquid assets efficiently. LTAFs are a higher-risk product that can provide greater diversification to investment portfolios and in turn produce higher returns. The FCA has implemented additional protections under the high-risk investment framework, including risk warnings and customer assessments.

The FCA is also requesting feedback on whether protections of the Financial Services Compensation Scheme should be made available for this product or whether a different approach should be in place before LTAFs get to the retail market.

## PRA

- **The PRA publishes letter to CROs on the thematic review of funded reinsurance arrangements**

There has been a growing appetite for the use of funded reinsurance (FundedRe) in the life insurance market in supporting bulk purchase annuities (BPAs), where writers competitively bid for new business. FundedRe is the transfer of both asset/investment risk and longevity risk to a reinsurer.

In response, the PRA conducted a thematic review of such arrangements to gain a better understanding of the nature of these transactions, how insurers are assessing the benefits and risks relating to them and what risks FundedRe may pose to the PRA's statutory objectives. This letter contains the main thematic findings and reiterates that firms need to take actions to improve the way in which they manage the risks in these transactions if they plan to participate in this market.

The PRA plans further supervisory work on this topic, including targeted work in the areas of collateral risk management and internal model approaches.

- **The PRA publishes CP 12/23, "Review of Solvency II: Adapting to the UK insurance market"**

The CP forms part of the wider ongoing review of the UK's insurance regulatory environment led by the UK government and in particular HM Treasury (HMT).

The PRA is consulting on its approach to adapting Solvency II for the UK market in two tranches:

- CP 12/23, which sets out the majority of the PRA's reform proposals, focusses on simplification, improving flexibility and encouraging entry.
- A second consultation is planned for September 2023, which will cover reform proposals for life insurers relating to investment flexibility and the Matching Adjustment.

The proposed reforms described in this CP include:

- Simplifications and process improvements to the calculation of the Transitional Measure on Technical Provisions (TMTP)
- A new, streamlined set of rules for Internal Models where they are used by insurers to calculate their capital requirements
- Greater flexibility for insurance groups in the calculation of group solvency requirements
- The removal of certain requirements for branches of international insurers operating in the UK
- The streamlining and removal of reporting requirements to increase proportionality and reduce complexity
- A new "mobilisation" regime to facilitate entry and expansion for new insurers and to facilitate competition
- An increase in the size of thresholds at which small insurers are required to enter the Solvency II regime

Responses to the consultation are requested by 1 September 2023, except in the case of a number of administrative amendments to PRA rules, for which the deadline is 31 July 2023. The PRA expects to issue the final policy in relation to most of the proposals at the end of the year.

■ **The PRA publishes CP 11/23, "PRA statement on the review of rules"**

Under the Financial Services and Markets Act 2023 (FSM Act), the PRA will take on wider rule-making responsibilities in areas that were previously covered by retained EU law. Following on from this transfer of responsibilities, the PRA will become subject to additional accountability measures.

This CP sets out the PRA's proposed approach to reviewing its rules as required by the FSM Act. Rule review is already a familiar part of the PRA's existing approach to policy making. The PRA reviews existing rules to assess whether they are operating effectively and delivering their intended impact.

Views are welcome on this CP until 29 September 2023.



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**CONTACT**

**Neil Christy**  
[neil.christy@milliman.com](mailto:neil.christy@milliman.com)

**Isabel Stansfield**  
[isabel.stansfield@milliman.com](mailto:isabel.stansfield@milliman.com)

**Monique Mahabir**  
[monique.mahabir@milliman.com](mailto:monique.mahabir@milliman.com)

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