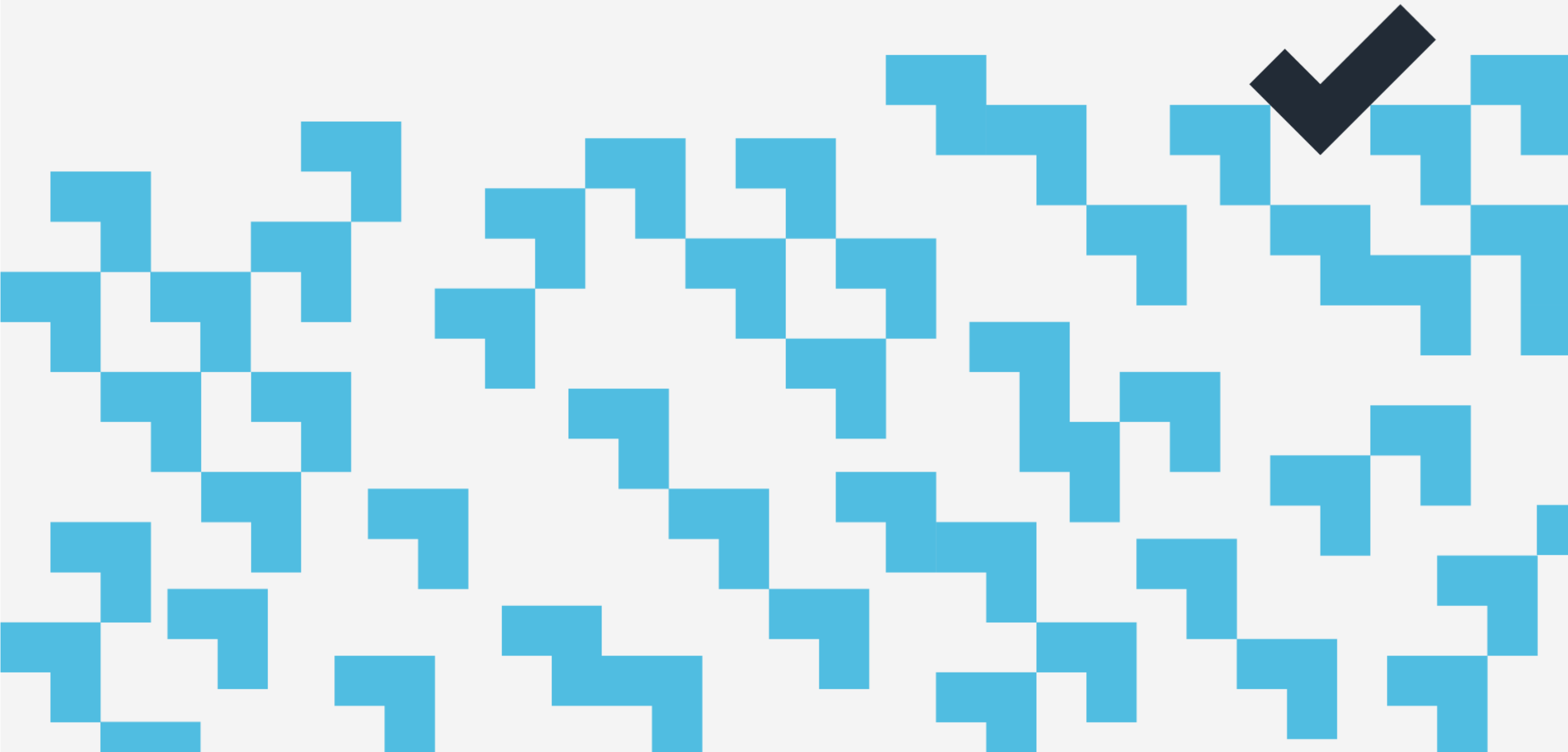

Summary of regulatory developments

Updates for September 2024

This memo identifies and summarises any regulatory updates published during September 2024 which may be of relevance to life insurance companies.

The following table summarises the relevant updates identified in September.

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

Date	Description
3-Sep	The European Insurance and Occupational Pensions Authority (EIOPA) welcomes report published by Climate Resilience Dialogue
6-Sep	The Financial Conduct Authority (FCA) publishes findings on how principals are meeting its enhanced Appointed Representative (AR) rules
9-Sep	FCA sets out temporary measures for firms on "naming and marketing" sustainability rules
10-Sep	The European Supervisory Authorities (ESAs) publish their Autumn 2024 Joint Committee Report on risks and vulnerabilities
11-Sep	EIOPA publishes its Staff Paper on the future of the Pan-European Pension Product (PEPP)
11-Sep	FCA publishes research on approaches to increase pension engagement
26-Sep	EIOPA invites stakeholders to provide feedback on measures aimed at strengthening the supervision of occupational pension funds' liquidity management
27-Sep	PRA publishes letter to chief financial officers on accounting for International Financial Reporting Standard (IFRS) 9 expected credit loss accounting (ECL) and climate risk
30-Sep	The Bank of England (BoE) and FCA open the Digital Securities Sandbox (DSS)
30-Sep	EIOPA publishes its Q&As on regulation

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Registered Office 11 Old Jewry, London EC2R 8DU
Offices in Principal Cities Worldwide

Updates for September 2024

This section highlights articles of interest to life companies released in September 2024.

ESAs

- **ESAs publish their Autumn 2024 Joint Committee Report on risks and vulnerabilities**

  The report underlines ongoing high economic and geopolitical uncertainties, and includes a cross-sectoral deep dive into credit risks in the financial sector. The Joint Committee of the ESAs advises national competent authorities, financial institutions and market participants to take the following policy actions:

  - Financial institutions and supervisors should remain prepared to face the impacts of continued high interest rates on the real economy.
  - Credit risk should continue to be monitored and carefully managed as its potential materialisation remains a concern. This underlines the need for adequate provisioning levels and forward-looking provisioning policies, while maintaining prudent and up-to-date collateral valuation.
  - Financial institutions need to be flexible and agile and have proper plans and processes in place to address unexpected short-term multi-fold challenges.
  - Financial institutions and supervisors should remain vigilant regarding the impact of inflation on product development.
  - Financial institutions and supervisors should remain vigilant to operational and financial stability risks that could arise from cyber risks, as exemplified by the global IT disruption in July from the failed software update of a widely used cybersecurity company.

EIOPA

- **EIOPA welcomes report published by Climate Resilience Dialogue**

  Over the past four decades, the frequency of extreme weather events worldwide has tripled, resulting in economic losses of €270 billion in 2023 alone. Finding the right answers to how we can mitigate climate change and adapt to its effects requires expertise from a wide range of policy areas. The report, convened by the European Commission, aligns closely with EIOPA's own sustainable finance priorities. The report highlights areas to develop:

  - Harnessing the power of insurance
  - Reducing the cost of insurance via burden sharing
  - Improving risk assessment through data and knowledge sharing
  - Enhancing risk awareness by reducing risks while bringing consumers along

- **EIOPA publishes its Staff Paper on the future of the Pan-European Pension Product (PEPP)**

  The PEPP, launched in 2022, was designed to offer a simple, transparent, cost-efficient and mobile retirement savings option with which European citizens could supplement their state pensions. The paper sets out the reasons behind the limited uptake of the PEPP and suggests improvements to its design to overcome supply-side, demand-side and structural barriers hindering its broader adoption. To tackle supply-side issues, the measures below are proposed:

  - Combine occupational and personal PEPP into a single product. Allowing tax-efficient employer contributions with personal contributions within one PEPP would provide the necessary scale to attract more providers.
  - Focus on value-for-money considerations in the PEPP instead of a hard ceiling on costs.
  - Create PEPP labels for national products that adhere to a set of EU-wide common rules.
  - Reduce the administrative burden by making national sub-accounts voluntary, thereby making the cross-border feature of the PEPP optional.
  - Allow the transfers of funds from other personal pension products into the PEPP.

To tackle demand-side issues, the measures below are proposed:

- Introduce auto-enrolment for a personal pension scheme like the PEPP at the EU level. Automatically opening a scheme for every EU citizen reaching the age of 18 or entering the workforce would be an innovative step. Such schemes should allow both regular and intermittent contributions to reflect diverse career paths.
- Develop pension tracking systems. Providing savers with transparent and accessible information on their combined pension entitlements in one single place supports long-term savings and adequate pension planning.

EIOPA is also introducing the national and union-wide initiatives below for member states:

- Grant the PEPP the same favourable tax treatment that national personal pension products enjoy. Additionally, EU-wide tax harmonisation for PEPP would facilitate cross-border sales and help providers reach economies of scale and keep costs low.
- Implement pension dashboards to improve transparency regarding the adequacy and sustainability of national pension systems. Measuring pension gaps is an essential first step to closing them.

▪ **EIOPA invites stakeholders to provide feedback on measures aimed at strengthening the supervision of occupational pension funds' liquidity management**

Institutions for occupational retirement provision (IORPs) that hold derivative instruments are exposed to substantial liquidity risks due to being vulnerable to rapid changes in interest rates and/or the value of foreign currencies, potentially triggering short-term margin calls that IORPs would need to meet. The consultation paper sets out EIOPA's draft Opinion and aims to enhance convergence in oversight to protect pension fund members and beneficiaries and to bolster the stability of IORPs and the wider financial system by expecting supervisors:

- To monitor and assess the liquidity risk exposures of IORPs.
- To assess their ability to manage these risks when IORPs are found to have material liquidity risks.
- To ensure that IORPs exposed to material liquidity risks fulfil some key principles regarding the management of this exposure, including by stress testing cash flows, drawing up contingency plans and creating a buffer of liquid assets to cover any shortfalls.

EIOPA invites feedback via the online survey by no later than 20 December 2024.

EIOPA expects to publish the final Opinion in the course of 2025, together with a feedback statement on stakeholders' responses.

▪ **EIOPA publishes its Q&As on regulation**

Updates include the following:

- (EU) 2019/1238 - Pan-European Personal Pension Product (PEPP). Question 3117.

FCA

▪ **FCA publishes findings on how principals are meeting its enhanced Appointed Representative (AR) rules**

The review, introduced in December 2022, involved a telephone survey with 251 principals and in-depth assessments of documentation from 23 firms. The FCA found that:

- Some firms are using a tick-box approach to complying with rules, relying on basic information like website checks, or using self-declarations from their ARs to demonstrate effective oversight.
- One in five principals had not carried out a required self-assessment or annual review of their ARs.
- Approximately 50% of principals were not regularly reviewing their AR agreements.
- A third of principals were not using data or management information to keep tabs on whether ARs were acting within the scope of AR agreements.
- Most firms at the time had not changed their AR onboarding or termination procedures since the rules were introduced.

- **FCA sets out temporary measures for firms on "naming and marketing" sustainability rules**

  The FCA is offering firms temporary flexibility to comply with "naming and marketing" rules under the Sustainability Disclosure Requirements regime, i.e., Environmental, Social and Corporate Governance (ESG) 4.3.2R to ESG 4.3.8R of the ESG sourcebook, until 5 p.m. on 2 April 2025. The package of measures is in relation to a sustainability product which is a UK-authorised investment fund where the firm:

  - Has submitted a completed application for approval of amended disclosures in line with ESG 5.3.2R for that fund by 5 p.m. on 1 October 2024.
  - Is currently using one or more of the terms: "sustainable", "sustainability" or "impact" (or a variation of those terms) in the name of that fund and is intending either to use a label, or to change the name of that fund.

  The FCA expects firms that can comply with the rules to do so without waiting until 2 April 2025. The FCA is also offering support for firms.

  The "naming and marketing" and disclosure rules come into force from 2 December 2024.

  The FCA also notes that it will take a supportive, proportionate and outcomes-based approach to authorisation of fund mergers, wind-ups and terminations before 2 December 2024.

- **FCA publishes research on approaches to increase pension engagement**

  The FCA's research focused on when and how firms can improve their communications to help consumers make informed decisions about their retirement savings. The research used behavioural insights to overcome common barriers in communication such as a tendency to focus on the present rather than the future (present bias), feeling overwhelmed by too much information and whether engaging consumers at notable touchpoints such as birthdays would increase engagement.

  Three experiments were undertaken to test how different subject lines and email messages could influence people's engagement and understanding of emails about their pensions. The results showed behavioural messaging could help encourage consumers to open an email but did not affect their engagement with the email.

  A field trial was also conducted with over 82,000 pension customers from two providers to test sending emails at notable touchpoints. Overall, the engagement was found to be low, with just 1% to 7% of customers clicking through to the free financial guidance.

  The FCA encourages firms to explore innovative approaches in talking to consumers about their pensions as well as conducting pretesting communications to ensure they make the most impact and do not unintentionally discourage consumers.

BOE

- **The BoE and FCA open the Digital Securities Sandbox (DSS)**

  The DSS aims to reshape how we regulate by allowing firms to test legislative changes in real-world scenarios before the changes are implemented. The BoE and FCA encourage firms innovating in financial market infrastructure to apply and have published guidance to help them.

  There is a wide range of support available. For example, firms can arrange pre-application meetings to better understand the DSS requirements and can find an introductory video available.

PRA

- **PRA publishes letter to chief financial officers on accounting for International Financial Reporting Standard (IFRS) 9 expected credit loss accounting (ECL) and climate risk**

  The letter provides thematic feedback from the PRA's review of written auditor reports received in 2024 covering IFRS 9 ECL and climate risk. With regards to IFRS 9, the PRA found:

  - Model risk continues to remain elevated, and firms should challenge the completeness of post-model adjustments.
  - Progression is being made on updating models and reducing reliance on aged models with known limitations.
  - Default experience remains limited, meaning loss given default models remain calibrated on historical data.

With regards to climate risks, the PRA found:

- There is further scope to expand the coverage of portfolios for which climate-related risk drivers are formally assessed.
- Firms are at various stages of developing more granular approaches to quantify the impact of climate-related risk drivers on ECL. There is scope for firms to further enhance data and processes to challenge the completeness of overlays and embed climate risks in loan-level credit risk assessments.
- Firms are using different approaches to adapt economic scenarios to incorporate climate-related risk drivers. There is scope for firms to consider a broader range of climate scenarios and indicators to allow for timely identification of borrowers and sectors more exposed to climate risk than the wider economy.

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milliman.com

CONTACT

Neil Christy
neil.christy@milliman.com

Mirakh Modasia
mirakh.modasia@milliman.com

Monique Mahabir
monique.mahabir@milliman.com

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