# Summary of regulatory developments

## Updates for February 2024

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

The following table summarises the relevant updates identified in February.

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

| Date | Description |
|---|---|
| **2-Feb** | The Financial Conduct Authority (FCA) and Practitioner Panel joint survey for 2024 launches |
| **5-Feb** | The European Insurance and Occupational Pensions Authority (EIOPA) publishes its Insurance Risk Dashboard based on third quarter of 2023 Solvency II data |
| **15-Feb** | FCA requests information from firms about delivery of their ongoing advice services and the Consumer Duty |
| **19-Feb** | EIOPA publishes first shocked risk-free interest rate term structures |
| **22-Feb** | The Prudential Regulatory Authority (PRA) publishes policy statement (PS) 4/24, “PRA statement on the review of rules” |
| **28-Feb** | PRA publishes supervisory statement (SS) 1/24, “Expectations for meeting the PRA’s internal model requirements for insurers under Solvency II” |
| **28-Feb** | PRA publishes permissions for transitional measures on technical provisions (TMTP) and risk-free interest rates (TMIR) |
| **28-Feb** | PRA publishes approach to insurance group supervision |
| **28-Feb** | PRA publishes permissions and ongoing monitoring of Solvency II internal models |
| **28-Feb** | PRA publishes PS2/23, “Review of Solvency II: Adapting to the UK insurance market” |

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

| Date | Description |
|---|---|
| **28-Feb** | PRA publishes PS3/24, "Review of Solvency II: Reporting and disclosure phase 2 near-final" |
| **28-Feb** | PRA publishes approach to capital add-ons |
| **29-Feb** | PRA publishes approach to waiving Solvency UK regulatory requirements |
| **29-Feb** | EIOPA publishes revised Staff Paper on demand-side factors contributing to the low uptake of natural catastrophe insurance across Europe |

# Updates for February 2024

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

**EIOPA**

- **EIOPA publishes its Insurance Risk Dashboard based on third quarter of 2023 Solvency II data**

  The results of the dashboard show that insurers' exposures to the following risks are currently the main concern for the insurance sector:

  - Market risks remain prominent given the elevated volatility in bond markets and a further decrease in commercial real estate prices.
  - Macro risks persist but show a declining trend, primarily due to a reduction in forecasted inflation.
  - Liquidity and funding risks remain at medium level with an increasing trend driven in part by low catastrophe bond issuance in the third quarter of 2023 and a slight decrease in the median of the distribution of insurers' cash holdings.
  - Digitalisation and cyber risks decreased to a medium level, but forward-looking assessments point to an increase in this risk over the next year.

  All other risk categories, such as credit, profitability and solvency, interlinkages and imbalances, insurance and environmental, social and corporate governance (ESG) risks, remain at medium levels.

- **EIOPA publishes first shocked risk-free interest rate term structures**

  EIOPA has begun publishing shocked risk-free rates for duration calculation in financial stability reporting. These term structures are used to calculate the "option-adjusted" duration of technical provisions to be reported in the context of the Guidelines for reporting for financial stability purposes (S.38.01.11 – Duration of technical provisions).

  The term structures will be updated and published twice a year on EIOPA's website. The next update is July 2024.

- **EIOPA publishes revised Staff Paper on demand-side factors contributing to the low uptake of natural catastrophe (NatCat) insurance across Europe**

  The use of NatCat insurance in Europe remains low, with only around a quarter of all losses covered. Earlier work on Impact Underwriting and on Exclusions found that, while partial cause for this protection gap stems from limitations in the supply, consumer engagement is also insufficient.

  The paper outlines barriers that keep consumers from buying insurance, including:

  - A strong focus on the premium rather than the overall usefulness of the product, leading to the perception that coverage is not affordable.
  - Lack of clarity in terms and conditions.
  - Previous negative experiences with insurance claims.
  - Misperceptions regarding the likelihood of being impacted by natural catastrophes.
  - High expectations of state intervention in the event of a catastrophe.
  - The perception that the process of taking out insurance is complex and time-consuming.

To remedy these issues, EIOPA has outlined a number of potential solutions to increase uptake. They include raising awareness of the level of risk consumers face, promoting more standardised and easily comparable products, and streamlining the consumer purchasing journey. EIOPA has also considered offering incentives such as premium discounts for implementing risk-mitigation measures.

EIOPA welcomes feedback from stakeholders on the Staff Paper by 5 October 2023.

**FCA**

- **FCA and Practitioner Panel joint survey for 2024 launches**

  The survey will be sent to all fixed firms and an increased sample of 25,000 flexible firms this year. It will be carried out by an independent social research organisation to assess how the FCA is doing in regulating the industry.

  The FCA plans to use the results to better understand issues affecting firms and to assess any changes they should consider making to their approach. The FCA will also use this as one of several sources of feedback used to evaluate its performance against key areas of its three-year strategy. The results will be presented to the Practitioner Panel and the FCA's board and published in summer 2024.

- **FCA requests information from firms about delivery of their ongoing advice services and the Consumer Duty**

  The FCA's survey enquires on whether firms have assessed their ongoing services in response to the introduction of the Consumer Duty, and whether they have made any changes as a result. The FCA is also requesting data on the number of clients due a review of the ongoing suitability of the advice as part of the service, how many received that review and how many paid for ongoing advice but whose fees were refunded as the suitability review did not happen.

  The FCA is collecting this information to assess what, if any, further regulatory work it may undertake in this area. The FCA anticipates providing a further update having considered the firms' responses.

  Around 20 of the largest advice firms are receiving the survey.

**PRA**

- **PRA publishes PS4/24, "PRA statement on the review of rules"**

  The PS provides feedback to the responses to consultation paper (CP) 11/23 and contains the PRA's final 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.

  Overall, the responses did not raise major concerns with the PRA's rule review framework. However, respondents shared ideas about how aspects of the PRA statement could be changed. For example, they suggested further ways for stakeholders to engage with the PRA and proposed additional information on rule reviews that the PRA could publish, such as the outcomes of reviews.

  The PRA published the final version of its statement on the review of rules alongside this PS. The implementation date is 21 February 2024.

- **The PRA publishes SS1/24, "Expectations for meeting the PRA's internal model requirements for insurers under Solvency II"**

  This SS sets out the PRA's expectations for insurers to meet the PRA's internal model (IM) requirements arising from the section "Solvency Capital Requirement (SCR) – Internal Models 10 to 16A" within the PRA Rulebook. The SS covers expectations on the probability distribution forecast related to a partial IM, including new risks in the IM, data used in the IM, the model validation process and validation tools, documentation standards including minimum content of the documentation, the circumstances under which the IM does not work effectively and changes to the IM.

  These expectations will be effective from 31 December 2024.

- **PRA publishes permissions for TMTP and TMIR**

  This statement of policy (SoP) covers the PRA's approach to granting regulatory permissions in relation to TMTPs and TMIRs. In particular it outlines the PRA's approach to considering when it would:

  - Grant new permissions for firms to apply the TMTP.
  - Revoke TMTP permissions.
  - Modify certain TMTP rules, including by way of a variation of a firm's TMTP permission.

  The PRA considers that all firms that require TMTP for transitioning their balance sheet from Solvency I to Solvency II should have now sought permission for TMTP. Therefore, the PRA generally will not consider new applications for TMTP permission. The only circumstance in which the PRA expects to consider granting a firm a new permission is if that firm is acquiring a book of business that already benefits from TMTP.

  The amortisation approach outlined in TMTP 5.2 may be inappropriate for some firms due to the runoff pattern of their business. The PRA will consider applications from such firms to waive or modify the rule and instead be required to adopt their proposed alternative amortisation approaches. The PRA will consider this in instances where the application could result in an adverse impact on a firm's solvency position.

  These rules will be effective from 31 December 2024.

- **PRA publishes approach to insurance group supervision**

  This SoP sets out the PRA's approach to certain aspects of insurance group supervisions under the Group Supervision Part of the PRA Rulebook. It covers the PRA's approach to:

  - Insurance groups where the group is a financial conglomerate and where the PRA may exercise its statutory power to waive rules relating to Solvency II group supervision for such firms.
  - Exercising its powers in relation to how insurance groups calculate their group SCRs and group-eligible own funds.
  - Third countries and the PRA's policy when exercising discretion to allow a group that meets certain factors to bring in its overseas subgroup's group SCR under method 2.
  - Policy when exercising discretion to allow groups to add the results of two or more calculation approaches while calculating the consolidated group SCR as an interim option until the new or extended group IM (or group-specific parameters) has been approved.
  - Policy to identify and monitor risk concentration and intragroup transactions, including in the case of mixed-activity insurance holding companies.

  These approaches will be effective from 31 December 2024.

- **PRA publishes permissions and ongoing monitoring of Solvency II internal models**

  This SoP sets out the PRA's approach to considering applications and granting permissions for the use of IMs for the purpose of calculating the SCR. It covers:

  - The procedure for considering applications and granting permissions, including pre-application interaction.
  - The PRA's approach to variations to those permissions to enable firms to make major changes to their IMs.
  - How safeguards may be applied to allow permissions to be granted if residual model limitations are identified.
  - How significant deviations from the assumptions underlying the Standard Formula may be addressed.
  - Details of the approach for continuous review and evaluation of firms' IMs through the IM Ongoing Review framework.

  These approaches will be effective from 31 December 2024.

- **PRA publishes PS2/24, "Review of Solvency II: Adapting to the UK insurance market"**

  The PS provides the PRA's feedback responses to the chapters of CP12/23 and the PRA's final policy in the form of near-final rules and updated near-final policy materials. The most material changes made in the PS include:

  - Chapter 4 – Capital add-ons

    The removal of the proposed requirement for firms to disclose Residual Modal Limitation capital add-ons (RML CAOs) and removal of safeguards (including RML CAOs) from the PRA's regular aggregate report on CAOs.

    Allowing explicitly for the possibility of setting a CAO which moves dynamically in line with certain outputs calculated by a firm, in order to reflect how the underlying risk deviation varies over time (e.g., due to changes in the business and economic conditions). This may benefit firms in mitigating the need for frequent reviews of CAOs.

  - Chapter 5 – Flexibility in calculating the group SCR

    Allowing an insurance group up to six months after an acquisition to create a clear and realistic plan to integrate any internal models, amending the proposal that required this plan at the point of acquisition and a two-year period thereafter to implement this plan.

  - Chapter 8 – Thresholds

    Increasing the threshold for gross written premiums above which a firm enters Solvency II to £25 million, a further increase of £10 million compared with the CP12/23 proposals.

  Other changes introduced in the PS are clarifications related to IMs, such as regarding negative model limitation adjustments (MLAs) and confirmation that MLAs are not expert judgements, and that splitting or combining risks already within firms' IM scope or adding risks which fall within the sub-modules of risks already within the scope of IMs may not necessarily amount to including new risks in IMs.

  This PS will come into effect 31 December 2024. Further details about these proposals can be found in this Milliman paper.

- **PRA publishes PS3/24, "Review of Solvency II: Reporting and disclosure phase 2 near-final"**

  This PS provides feedback to responses to consultation paper CP14/22 and Chapter 7 of CP12/23 and sets out the PRA's near-final reporting and disclosure policy.

  Proposals aim to streamline the reporting requirements, where the current disclosures have limited prudential value, or the PRA can use information reported through other templates or disclosures. For example, the PRA has removed the requirements to complete a number of Solvency II Quantitative Reporting Templates (QRTs) and reduced the reporting frequency and introduced reporting thresholds for certain templates.

  Most respondents were supportive of the PRA's aims to review the stock of EU-derived and PRA insurance reporting. The final policy largely includes the proposals outlined in the consultation paper, with some amendments. The changes mainly include not introducing some of the proposed templates, introducing simplified versions of others and simplifying versions of some existing templates.

  Appendix 6 to the statement provides a mapping of reporting and disclosure template names with the descriptions of whether it is amended (27 templates), has amended instructions (12), is deleted (36), is a new template (17), or there is no change (34).

  This PS will come into effect 31 December 2024. Further details about these proposals can be found in this Milliman paper.

- **PRA publishes approach to capital add-ons**

  The SoP sets out the approach that the PRA expects to use in relation to CAOs. It covers:

  - The circumstances under which the PRA expects to consider setting a CAO.
  - The methodologies the PRA expects to use to calculate a CAO.
  - The information relevant to the use of CAOs at the group level.
  - The process the PRA intends to follow when setting a CAO.
  - The ongoing monitoring, reporting and removal of a CAO.

  These approaches will be effective from 31 December 2024.

- **PRA publishes approach to waiving Solvency II UK regulatory requirements**

  This SoP sets out the PRA's approach to waiving the submission of certain Solvency II reporting requirements in the reporting part of the PRA Rulebook, using its statutory powers under section 138A of the FSM Act. In particular:

  - The publication lists the reporting requirements applicable to individual firms and third-country branch undertakings granted the waivers set out in this SoP
  - The publication explains the steps a firm must take to apply for a waiver, and how the decision will be communicated to the firm.

  These rules will be effective from 31 December 2024.

Milliman

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.

milliman.com

CONTACT

**Neil Christy**
neil.christy@milliman.com

**Isabel Stansfield**
isabel.stansfield@milliman.com

**Monique Mahabir**
monique.mahabir@milliman.com



Milliman LLP is a limited liability partnership registered in England and Wales (number OC376134).
Registered Office 11 Old Jewry, London EC2R 8DU
Offices in Principal Cities Worldwide