# Summary of regulatory developments

## Updates for April 2024

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

The following table summarises the relevant updates identified in April.

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

| Date | Description |
|---|---|
| **2-Apr** | The European Insurance and Occupational Pensions Authority (EIOPA) launches stress test on European insurers' resilience to escalating geopolitical tensions |
| **4-Apr** | EIOPA publishes supervisory statement on the supervision of reinsurance concluded with third-country reinsurers |
| **11-Apr** | The European Supervisory Authorities (ESAs) announce plans to launch voluntary exercise for the next stage of DORA implementation |
| **11-Apr** | The Prudential Regulatory Authority (PRA) publishes Business Plan 2024/25 |
| **12-Apr** | EIOPA publishes results of year-end 2022 study on market and credit risk modelling |
| **15-Apr** | EIOPA publishes report on the impact of new accounting standard IFRS 17 |
| **15-Apr** | PRA publishes Solvency II Review – Matching adjustment (MA) reform implementation considerations |
| **16-Apr** | EIOPA, the European Banking Authority (EBA) and the European Central Bank (ECB) set up a joint governance framework for collaboration on the Data Point Model (DPM) 2.0 standard |
| **16-Apr** | Financial Conduct Authority (FCA) Executive Director gives speech on investing in women |
| **18-Apr** | FCA Executive Director gives speech on promoting competitiveness |

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

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

| Date | Description |
|---|---|
| **22-Apr** | FCA Chief Executive delivers speech on the UK's digital regulation landscape |
| **22-Apr** | PRA publishes CP5/24, "Review of Solvency II: Restatement of assimilated law" |
| **23-Apr** | FCA confirms anti-greenwashing guidance and proposes extending sustainability framework |
| **30-Apr** | ESAs publish their Spring 2024 Joint Committee update on risks and vulnerabilities in the EU financial system |
| **30-Apr** | EIOPA publishes report on the level of digitalisation in the European insurance market |
| **30-Apr** | EIOPA publishes its Q&A on regulation |

# Updates for April 2024

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

### ESAS

- **ESAs announce plans to launch voluntary exercise for the next stage of DORA implementation**

  Under the Digital Operational Resilience Act (DORA) and starting from 2025, financial entities will have to maintain registers of information regarding their use of information and communications technology (ICT) third-party providers. The ESAs and the competent authorities have introduced a voluntary exercise to help financial entities prepare for establishing their registers of information, gathering relevant information and reporting.

  The exercise will act as a dry run. The ESAs will support participants in:

  - Building their registers of information in the format as close as possible to the steady-state reporting from 2025
  - Testing the reporting process
  - Addressing data quality issues
  - Improving internal processes and the quality of registers of information

  The ad hoc data collection is expected to launch in May 2024 with financial entities expected to submit their registers of information to the ESAs between 1 July 2024 and 30 August 2024. The ESAs have provided a fact sheet for more information on this exercise.

- **ESAs publish their Spring 2024 Joint Committee update on risks and vulnerabilities in the EU financial system**

  The report highlights that risks remain high due to slowing growth, uncertain interest rates and ongoing geopolitical tensions. Despite strong recent performance, financial markets face elevated risks of market corrections due to potential unexpected events.

  Credit risk is expected to increase, particularly for high-yield debt and real estate. The insurance sector maintained strong capitalisation in 2023 with solvency ratios well above 200%. Defined benefit occupational pension schemes improved their financial positions. The liquidity positions of insurers diminished slightly but remain ample. Challenges stemming from subdued growth and the potential repricing of risk premia nevertheless persist.

  The report also highlights increasing cybersecurity risks due to heightened geopolitical instability and increased reliance on digital solutions. The number of attacks and cyber threats is increasing and, while the impact of these attacks so far has been limited, cyber-related insurance claims keep increasing, and the (re)insurance industry is further strengthening pricing techniques and risk-transfer mechanisms.

## EIOPA

- **EIOPA launches stress test on European insurers' resilience to escalating geopolitical tensions**

  The stress test will subject 48 insurers in 20 member states of the European Economic Area (EEA) to a hypothetical scenario of severe but plausible adverse developments in financial and economic conditions. The sample for the stress test will cover over 75% of the EEA market in terms of total assets. The aim is to assess the resilience of participants to the adverse scenario whose shocks go beyond the regular resilience required under Solvency II and to provide supervisors with information on whether these insurers can withstand severe shocks.

  Participating undertakings will have until mid-August 2024 to calculate their results based on the prescribed scenario. EIOPA will then undertake a quality assurance process for validation purposes. The aim is to publish the final results of the stress test in December 2024 as a report based on aggregated data and a publication of individual results relating to a subset of capital-based indicators.

- **EIOPA publishes supervisory statement on the supervision of reinsurance concluded with third-country reinsurers**

  The supervisory statement aims to highlight the risks stemming from the use of reinsurance provided by reinsurers operating under regulatory regimes not recognised as equivalent to Solvency II. EIOPA is proposing a risk-based approach for identifying and managing the associated risks to promote a high-quality and convergent supervision of such arrangements without limiting the use of reinsurance. The statement sets out supervisory expectations in several areas, including:

  - The assessment of the business context when using reinsurance from third countries and the importance of early supervisory dialogue.
  - How to assess reinsurance agreements and undertakings' risk management systems in relation to the use of third-country reinsurers.
  - Tools that would be key in mitigating any additional risks that may arise.

  EIOPA acknowledges that reinsurance is, and should remain, an international cross-border business that leverages the global diversification of risks and offers numerous advantages to insurance undertakings. However, EIOPA also notes that it is important to assess the actual risk mitigation taking place.

- **EIOPA publishes results of year-end 2022 study on market and credit risk modelling**

  The study included 20 participants from seven member states in the EEA. The sample covered close to 100% of the euro investments held by all undertakings with approved internal models covering market and credit risk.

  The results of the study showed moderate to significant dispersion in some asset model outputs. However, this dispersion may be partly attributed to certain model and business specificities that supervisors are conscious of. There was also indication that there is a need for continued supervisory attention.

- **EIOPA publishes report on the impact of new accounting standard IFRS 17**

  EIOPA has conducted a study to analyse how insurance undertakings in the EU implemented International Financial Reporting Standard (IFRS) 17 as well as the synergies and differences in the calculation of insurance liabilities with the Solvency II framework. The report is based on 2023 semiannual financial statements from 53 (re)insurance groups from 17 member states. The study found that:

  - The transition to IFRS 17 generally resulted in an increase in insurance liabilities and a decrease in shareholders' equity.
  - The new standard offers three transition approaches and three valuation methods, with the fair value approach being the most chosen for transition, accounting for 42% of insurance liabilities.
  - There is a clear link with the type of insurance contract and the valuation method. Insurers in the sample valued 86% of their life insurance liabilities using the variable free approach (VFA), while non-life insurance contracts were mostly (90%) valued using the premium allocation approach (PAA).
  - Quantitatively, under IFRS 17 life insurance liabilities were on average 2.5% lower than under Solvency II.

- Solvency II prescribes the risk-free interest rate term structures (RFR) from EIOPA while, under IFRS 17, insurers are responsible for deriving the RFRs. Nevertheless, 75% of insurers surveyed rely on EIOPA's RFRs for their IFRS 17 calculations. However, the final discount rate in IFRS 17 was often higher than in Solvency II due to illiquidity adjustments allowed in IFRS 17.
- The risk adjustment under IFRS 17 is significantly lower for life business compared to Solvency II.

▪ **EIOPA, the EBA and the ECB set up a joint governance framework for collaboration on the DPM 2.0 standard**

EIOPA, the EBA and the ECB have formed an alliance to govern and collaborate on the development and maintenance of the Data Point Model (DPM) standards. This alliance, established through a Memorandum of Understanding, aims to ensure a consistent methodology for modelling reporting requirements, the common metamodel used for populating these requirements and the associated documentation.

Following the publication of the DPM standard 2.0 in June 2023 by EIOPA and EBA, the three organisations have agreed on common arrangements for their cooperation beyond this standard. The alliance aims to facilitate the definition and exchange of regulatory data, increase efficiencies, avoid duplication of efforts and promote efficient processes for defining and communicating reporting requirements, as well as for collecting and exchanging data and metadata amongst reporting entities, national authorities and European authorities.

▪ **EIOPA publishes report on the level of digitalisation in the European insurance market**

The report is based on responses to EIOPA's 2023 Digitalisation Market Monitoring Survey and insights from a dedicated Eurobarometer poll. EIOPA found that:

- The level of digitalisation among European insurers is varied and, in most cases, still at an early stage.
- Digital-only distribution channels still lag well behind physical or hybrid ones. This is especially true for life insurance products where consumers prefer in-person meetings, even though online tools are also used to compare products or get more information about certain offers.
- Phone calls, emails and face-to-face meetings are the most popular communication channels, but the use of chatbots is expected to rise significantly.
- Most insurers are active on social media and use this to interact with customers and to launch marketing campaigns.
- Most insurers have active commercial relationships with Big Tech firms. Nearly 80% of the respondents use Big Tech companies for cloud storage services.
- Artificial intelligence (AI) is already used by 24% of the respondents in life insurance. Most current solutions have been developed in-house for simpler tasks that retain human oversight, but the expectation is that the use of AI will considerably increase in the years to come.
- Other technologies such as the Internet of Things (IoT), blockchain and parametric insurance are currently only used by a small number of insurers.
- Insurers reported growth in the cyber insurance market over the past two years even though many cyber insurance products still exclude certain risks.
- Insurers see acquiring adequate talent and skills as central to a successful digital transformation.

▪ **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 2612, 2604, 2538, 2588, 1574, 2576, 2550, 2586 and 2570.
- (EU) No 2015/35, supplementing Dir 2009/138/EC: Taking up and pursuit of the business of insurance and reinsurance (Solvency II [SII]). Questions 2394, 2362, 2560, 2544, 2578 and 2545.
- (EU) No 2015/2452 – procedures, formats and templates of the Solvency and Financial Condition Report (SFCR). Question 2599.
- (EU) No 2016/97 – Insurance Distribution Directive. Question 2564.
- Guidelines on valuation of technical provisions. Question 2548.
- (EU) No 2017/2358 – product oversight and governance requirements for insurance. Question 2479.

**FCA**

- **FCA Executive Director gives speech on investing in women**

  Highlights from the speech include:

  - The latest Financial Lives Survey found more women than men are struggling to cope financially.
  - To attract and retain women in financial services, we need to make sure the culture works for all.
  - Despite improvements in gender equality, a recent report showed a decline in the appointment of women to boards in the financial sector.
  - Whether we are parents or policy makers, advisers or consumers, we can all play our part in tackling the wealth gap.
  - Advice Guidance Boundary review and the FCA's thematic work in investments advice will help the industry to better support investors, including women.

- **FCA Executive Director gives speech on promoting competitiveness**

  Highlights from the speech include:

  - The FCA will be engaging with TheCityUK's suggestion of working on an international benchmarking framework.
  - The FCA wants to strike a balance between encouraging competition and innovation and advancing other operational objectives.
  - The FCA aims to support beneficial and responsible innovation, ensuring consumers and markets reap the benefits of new technology.
  - The FCA welcomes international firms but wants them to operate in a way that protects consumers and market integrity.
  - The FCA expects senior managers to spend time in the UK appropriate to their responsibilities.

- **FCA Chief Executive delivers speech on the UK's digital regulation landscape**

  Highlights from the speech include:

  - Leading a coordinated and effective effort to make the most of the opportunities of Big Tech—whilst mitigating the risks—will be a priority of the Digital Regulation Cooperation Forum (DRCF).
  - The FCA's recent Call for Input shows that we need to remain vigilant about data asymmetry or risk putting off incumbents and innovators from retail financial services.
  - The FCA is examining the case for developing a commercially viable framework for data sharing in Open Banking and Finance.
  - Collaboration, including with the industry, through fora such as the DRCF AI and Digital Hub, is key to making sure the FCA's approach is proportionate and supports innovation.

- **FCA confirms anti-greenwashing guidance and proposes extending sustainability framework**

  The anti-greenwashing rule is designed to protect consumers by ensuring sustainable products and services sold are accurately described. The proposed labelling and Sustainability Disclosure Requirements (SDR) for portfolio managers largely mirror those introduced for asset managers in November 2023. They include:

  - Product labels to help consumers understand what their money is being used for.
  - Naming and marketing requirements so products can only be described as having positive outcomes on the environment and/or society when those claims can be backed up.

  The anti-greenwashing rule will come into force 31 May 2024. UK-based fund managers can use the investment labels from 31 July 2024. The naming and marketing rules for UK-based fund managers come into effect from 2 December 2024.

**PRA**

- **PRA publishes Business Plan 2024/25**

  The PRA's strategic priorities are to:

  - Maintain and build on the safety and soundness of the banking and insurance sectors and ensure continuing resilience.
  - Be at the forefront of identifying new and emerging risks and developing international policy.

- Support competitive and dynamic markets, alongside facilitating international competitiveness and growth, in the sectors that we regulate.
- Run an inclusive, efficient and modern regulator within the central bank.

▪ **PRA publishes Solvency II Review – Matching adjustment (MA) reform implementation considerations**

The PRA is issuing an update in response to clarifications requested by firms in their responses to the consultation paper (CP) 19/23 "Review of Solvency II: Reform of the Matching Adjustment," and to assist relevant insurance firms to prepare for implementation of the MA reforms. The PRA clarifies that:

- Existing approvals of firms relating to Part 4 of the Solvency II Regulations 2015 will continue to be valid under the reformed regime, including existing MA approvals.
- There are no plans to require firms to reapply for MA permission if it has been provided prior to 30 June 2024.
- Treatment of existing fixed assets under the new regime are not within the scope of CP19/23, which instead intended to broaden MA eligibility criteria to allow for the inclusion of assets with "highly predictable cashflows." The PRA will seek to ensure that no unintended changes are made to the policy on assets which are considered to have "fixed" cash flows.
- Implementation date is 30 June 2024 for the proposed new requirements under the reformed MA framework and the PRA has responded to some practical concerns that firms have posed.
- The PRA will communicate the date(s) on which new requirements will take effect and whether early adoption will be possible on a voluntary basis.

The PRA will provide further guidance and materials on the MA application process under the reformed regime in advance of 30 June 2024.

▪ **PRA publishes CP5/24, "Review of Solvency II: Restatement of assimilated law"**

The CP is the final PRA consultation needed to implement the conclusions of the Solvency II Review and to finalise PRA rules and other policy materials that will replace Solvency II assimilated law. This CP proposes the restatement into PRA policy material of those parts of the Solvency II regime which have not already been subject to consultation as part of the Solvency II Review. It sets out how the PRA proposes to restate these Solvency II requirements from assimilated law into the PRA Rulebook and other policy material such as supervisory statements or statements of policy.

Responses are requested by 22 July 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