Summary of regulatory developments

Updates for November 2020

This memo identifies and summarises any regulatory updates published during November 2020 that may be of relevance to life insurance companies.

The following table summarises the relevant updates identified in November.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-Nov</td>
<td>Nikhil Rathi, of the Financial Conduct Authority (FCA), delivers speech on ‘Green Horizon Summit: Rising to the Climate Challenge’</td>
</tr>
<tr>
<td>9-Nov</td>
<td>The European Insurance and Occupational Pensions Authority (EIOPA) publishes its Risk Dashboard based on the second quarter (Q2) of 2020 Solvency II data</td>
</tr>
<tr>
<td>12-Nov</td>
<td>EIOPA calls for sound supervisory practices in registering or authorising Institutions for Occupational Retirement Provision (IORPs) to foster a level playing field across the EU</td>
</tr>
<tr>
<td>12-Nov</td>
<td>EIOPA launches survey on the application of the Insurance Distribution Directive</td>
</tr>
<tr>
<td>18-Nov</td>
<td>FCA warns firms to be responsible when handling client data</td>
</tr>
<tr>
<td>23-Nov</td>
<td>FCA’s Richard Monks delivers speech on ‘Building Trust in Sustainable Investments’</td>
</tr>
<tr>
<td>25-Nov</td>
<td>EIOPA consults on the application of supervisory ladder for Solvency Capital Requirement (SCR) breaches</td>
</tr>
<tr>
<td>26-Nov</td>
<td>FCA’s Jonathan Davidson delivers speech on ‘The Business of Social Purpose’</td>
</tr>
<tr>
<td>30-Nov</td>
<td>EIOPA consults on insurers’ key performance indicators on sustainability for nonfinancial reporting</td>
</tr>
<tr>
<td>30-Nov</td>
<td>FCA response to the proposed consultation of the ICE Benchmark Administration (IBA) on intention to cease USD LIBOR</td>
</tr>
</tbody>
</table>
Updates for November 2020

This section highlights articles of interest to life companies released in November 2020.

EIOPA

- **EIOPA publishes its Risk Dashboard based on the second quarter of 2020 Solvency II data**

  The results show that the risk exposures of the European Union insurance sector slightly reduced, compared to the July risk assessment. Insurers are particularly exposed to very high levels of macro risk, while market, credit, profitability and solvency risks decreased to medium levels. However, the risk assessment does not account for the outbreak of the second wave of the pandemic.

- **EIOPA calls for sound supervisory practices in registering or authorising IORPs to foster a level playing field across the EU**

  EIOPA publishes a supervisory statement on the sound supervisory practices for registering or authorising Institutions for Occupational Retirement Provision (IORPs), including the assessment of suitability for cross-border activities. The main aim of the supervisory statement is to ensure that IORPs operating cross-border do so under prudent conditions, regardless of the different authorisation or registration regimes. This will foster a level playing field across the European Union conducive to an internal market for IORPs and ensure adequate protection of the members and beneficiaries.

- **EIOPA launches survey on the application of the Insurance Distribution Directive**

  On 12 November, EIOPA launched a survey on the application of the Insurance Distribution Directive (IDD), which entered into force in 2016. The aim of the survey is to gather feedback from stakeholders on their experience with the application of the IDD, in particular on the improvement of the quality of advice and selling methods, the impact of the IDD on small and medium-sized enterprises and possible further improvements identified after the application of the IDD. Stakeholders should provide their feedback by 1 February 2021.

- **EIOPA consults on the application of supervisory ladder for SCR breaches**

  EIOPA publishes a consultation on the statement on supervisory practices and expectations in case of breach of the Solvency Capital Requirement (SCR). EIOPA is gathering feedback on this statement, which aims to promote supervisory convergence in the application of the supervisory ladder, in particular addressing the recovery plan required in case of breach of the SCR. The supervisory practices addressing the supervisory ladder are necessarily flexible and should consider the specific situation of the insurance or reinsurance undertaking. However, it is important, when certain triggers are reached, such as noncompliance with the SCR, that a minimum convergent approach is applied to ensure a similar protection of policyholders and beneficiaries across Europe.

- **EIOPA consults on insurers’ key performance indicators on sustainability for nonfinancial reporting**

  EIOPA considers whether the mandatory ratios of nonfinancial undertakings, as set out in the Taxonomy Regulation, are relevant and appropriate to depict (re)insurers’ activities or whether they need to be ‘translated’ to the most appropriate and comparable key performance indicators for (re)insurance business. EIOPA suggests requiring the two most relevant key performance indicators on sustainability, depicting the extent to which:
  - The insurer or reinsurer carries out taxonomy-relevant activities—in relation to non-life gross premiums written
  - The insurer or reinsurer helps funding taxonomy-related activities—in relation to total assets

  EIOPA seeks feedback and comments on the proposals by 12 January 2021.
FCA

- FCA's Nikhil Rathi delivers speech on ‘Green Horizon Summit: Rising to the Climate Challenge’
  
  Highlights from the speech include:
  - Finance has a key role to play in the transition to a cleaner and less carbon-intensive economy.
  - Good regulation has an important role to play in this transition. The FCA wants to help market participants manage the risks from moving to a low-carbon economy while capturing opportunities to benefit consumers.
  - To achieve these goals the FCA is focused on improving transparency for market participants and consumers; building trust in sustainable finance products; and ensuring it provides the right regulatory tools to support firms.
  - From 1 January 2021, the FCA is introducing rules requiring premium listed companies to make better disclosures about how climate change affects their business, consistent with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). The FCA will also consult in the first half of 2021 on extending the scope of these rules and also on introducing TCFD obligations for asset managers, life insurers and pension providers.

- FCA warns firms to be responsible when handling client data

  The current economic climate is changing the way many firms operate and may cause some to leave the market or merge with other firms. When this happens, firms must make sure they lawfully process and transfer client data.

  The statement addresses:
  - What firms need to consider
  - Data protection legislation and the Information Commissioner’s Office
  - How firms must protect client data
  - How it protects consumer interests
  - The impact of Brexit

- FCA’s Richard Monks delivers speech on ‘Building Trust in Sustainable Investments’

  Highlights from the speech include:
  - Sustainability factors are increasingly influencing consumer decision-making. Consumers should be able to trust the products they are offered and to rely on them to perform as they expect.
  - The FCA is undertaking a number of initiatives that will help to address the concerns it’s identified, including domestic and international work on issuers’ disclosures and ongoing work with government on implementation of EU regulations.
  - The FCA has started to think about some principles that could help to guide the assessment of applications to authorise sustainable investment products.

- FCA’s Jonathan Davidson delivers speech on ‘The Business of Social Purpose’

  Highlights from the speech include:
  - Culture remains a key area of focus for the FCA.
  - During the COVID-19 crisis, financial services firms have supported consumers and been part of the solution rather than the problem, providing an opportunity to rebuild trust in financial services moving forwards.
  - While COVID-19 might be the most immediate challenge firms are facing, it isn’t the only one—the need to break barriers around diversity and inclusion as well as climate change and sustainability are key challenges that also require urgent attention.
  - Firms with healthy cultures—cultures that are purposeful, safe and support environments that are diverse and inclusive—will be better placed to tackle these challenges.
  - The financial services industry has the opportunity to make real progress, driven by social purpose.
FCA response to IBA’s proposed consultation on intention to cease USD LIBOR

ICE Benchmark Administration (IBA), the FCA-regulated and authorised administrator of LIBOR, announces that it will consult in early December on its intention to cease USD LIBOR. IBA intends that, subject to confirmation following its consultation, weekly and two month USD LIBOR settings will cease at end-2021, and that the USD LIBOR panel will cease at end-June 2023.

This follows IBA’s previous announcement to consult on its intention that the EUR, GBP, CHF and JPY LIBOR panels would cease at end-2021. In response to IBA’s previous announcement, the FCA issued a statement setting out its potential approach to ensure an orderly wind-down of LIBOR.

It welcomes and supports the extension by panel banks and IBA, together with the proposal to consult on a clear end date to the USD LIBOR panel, following discussions with the USD LIBOR panel banks. This will incentivise swift transition, while allowing time to address a significant proportion of the legacy contracts that reference USD LIBOR.