Summary of regulatory developments

Updates for November 2021

This memo identifies and summarises any regulatory updates published during November 2021 that may be of relevance to life insurance companies.

The following table summarises the relevant updates identified in November.

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

Date	Description
3-Nov	European Insurance and Occupational Pensions Authority (EIOPA) updates representative portfolios to calculate volatility adjustments for 2022
3-Nov	EIOPA commits to support the insurance and pensions sectors' efforts to tackle climate change
3-Nov	EIOPA publishes its Risk Dashboard based on the second quarter of 2021 Solvency II data
3-Nov	Financial Conduct Authority (FCA) acts to help investors make more informed ESG investment decisions
3-Nov	FCA CEO Nikhil Rathi delivers speech on "A strategy for positive sustainable change"
4-Nov	EIOPA publishes its Q&A on regulation
16-Nov	FCA confirms rules for legacy use of synthetic LIBOR rates and no new use of US dollar LIBOR
22-Nov	EIOPA publishes annual report on the use of capital add-ons during 2020 under Solvency II
25-Nov	FCA announces proposals to improve outcomes for non-workplace pension customers
30-Nov	EIOPA sets out a framework for delivering better value for money in a consumer-centric way

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

Updates for November 2021

This section highlights articles of interest to life companies released in November 2021.

EIOPA

- EIOPA updates representative portfolios to calculate volatility adjustments for 2022

  The European Insurance and Occupational Pensions Authority (EIOPA) published updated representative portfolios that will be used for calculating the volatility adjustments (VAs) to the relevant risk-free interest rate term structures for Solvency II. These portfolios will come into use from the end of March 2022, with the first VA based on the new representative portfolios being published in April 2022.

  The updated portfolios are based on the end-of-2020 annual reporting templates as reported by European (re)insurance companies to their national supervisory authorities. They enable more accurate reflections of the impact of market volatility under the Solvency II framework.

  EIOPA plans to revise the representative portfolios on an annual basis with the next update scheduled for the end of 2022.

- EIOPA commits to support the insurance and pensions sectors' efforts to tackle climate change

  EIOPA highlights this commitment at the 2021 United Nations Climate Change Conference (COP26). In particular, EIOPA is deepening its work to:

  - Integrate environmental, social and governance (ESG) risks in the prudential framework of insurers and pension funds
  - Consolidate the macro and micro-prudential risk assessment of ESG risks
  - Promote sustainability disclosures and a sustainable conduct of business framework
  - Support the supervision of sustainability risks and supervisory convergence in the European Union
  - Address protection gaps
  - Promote EIOPA as a hub for open source modelling and data

  EIOPA believes that climate change poses material risks to the assets and liabilities of insurers and pension providers and that, given their role as risk managers, they have a responsibility to address climate-related challenges. For example, this analysis can form part of insurers' own risk and solvency assessments (ORSAs) and undertakings will need to disclose how their activities contribute to the transition to an environmentally sustainable economy.

- EIOPA publishes its Risk Dashboard based on the second quarter of 2021 Solvency II data

  The results show that insurers' exposures to macro risks remain at a high level while all other risk categories, such as insurance as well as profitability and solvency risks, stay at medium levels. With regards to macro risks, inflation forecasts have been revised upwards. Financial markets stay broadly stable, amid fiscal and monetary support.

  The risks related to environmental, social and governance (ESG) issues, included for the first time in this Risk Dashboard, are at a medium level, with transaction and physical risks slightly improving.

- EIOPA publishes its Q&A on regulation

  Updates include the following:

  - (EU) No. 2015/35, supplementing Dir 2009/138/EC – Taking Up and Pursuit of the Business of Insurance and Reinsurance (SII). Questions 2087, 2102, 2331, 2333 and 2346.
  - (EU) No 2016/97 – Insurance Distribution Directive. Question 1727.

- EIOPA publishes annual report on the use of capital add-ons during 2020 under Solvency II

  The analysis is based on 2020 year-end data as reported by both solo and group firms in the European Economic Area (EEA) and complemented by a dedicated survey for national competent authorities (NCAs).

  The objective of the capital add-on measure is to ensure that the regulatory capital requirements reflect the risk profile of the solo or group firm. Therefore, it is important that NCAs use it when needed, with the aim to ensure a high degree of supervisory convergence in its application.

- EIOPA sets out a framework for delivering better value for money in a consumer-centric way

  EIOPA issued a supervisory statement which sets out the common principles needed so unit-linked products can offer value for money. The statement outlines how supervisory authorities will monitor manufacturers' and distributors' product oversight and governance processes.

  While the statement introduces no additional regulatory requirements, it clarifies the main principles that EIOPA expects to see in their supervisory approaches, including information on:

  - Pricing
  - Complexity
  - Testing
  - Regular review
  - Supervision

  Overall EIOPA expects a risk-based approach—where the products which pose the greatest risk of consumer detriment due to poor value for money are given supervisory priority.

  Towards this goal, EIOPA is also carrying out further work to develop a methodology to ensure a consistent assessment of value for money across the EU.

FCA

- FCA acts to help investors make more informed ESG investment decisions

  In its most recent Financial Lives survey, the FCA found 80% of respondents wanted their money to "do some good," 71% wanted to "invest in a way that is protecting the environment" and 71% would not put their money into "investments which are unethical." If the financial sector is to respond effectively to this growing demand, consumers need high-quality information and clear standards.

  To help enable this, the FCA published a Discussion Paper inviting views on potential criteria to classify and label investment products. This will help consumers navigate their sustainability characteristics. The FCA is also gathering feedback on supporting entity-level and product-level disclosures.

  The FCA encourages stakeholders to engage with the Discussion Paper as any input received will guide the FCA's policy design in this area.

- FCA CEO Nikhil Rathi delivers speech on "A strategy for positive sustainable change"

  Highlights from the speech include:

  - The FCA has released its new strategy for positive change.
  - The themes of trust and transparency remain at the core of the FCA's strategy. It is also announcing a programme of work to support a market-led transition to a more sustainable economy, and aims to embed ESG considerations in everything it does.
  - The FCA will support the government's ambition to work towards making the UK the world's first net zero financial sector.
  - To help mobilise the capital needed to keep emissions in check, the FCA needs to build a trusted market and internationally consistent frameworks and standards.

- FCA confirms rules for legacy use of synthetic LIBOR rates and no new use of US dollar LIBOR

  The FCA has confirmed it will allow the temporary use of "synthetic" sterling and yen LIBOR rates in all legacy LIBOR contracts (other than cleared derivatives) that have not been changed at or ahead of the 31 December 2021 end date. These synthetic rates will not be available for use in any new contracts.

  The FCA announced in September 2021 its decision on a fair, transparent and appropriate way of calculating synthetic LIBOR, approximating what LIBOR might have been in the future. The method is robust against manipulation and was supported by a large majority of respondents.

- FCA announces proposals to improve outcomes for non-workplace pension customers

  Currently non-workplace pension customers have to choose their own investments from an increasingly wide range of options. This complexity can make it hard for some customers to choose investments that meet their needs. The FCA is proposing that firms offer a new "default" investment option.

  Under the proposals, the default option would need to be an appropriately diversified portfolio of investments and take account of climate change and other ESG risks. As a customer approaches retirement, their investments would be changed to lessen the impact of any market downturn on their savings. The aim is to ensure pension savers have as big a pension pot as possible at retirement.

  The FCA invites responses to the Consultation Paper by 18 February 2022.

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

Claire Booth
claire.booth@milliman.com

Neil Christy
neil.christy@milliman.com

Oliver Gillespie
oliver.gillespie@milliman.com

Isabel Stansfield
isabel.stansfield@milliman.com

© 2021 Milliman, Inc. All Rights Reserved. The materials in this document represent the opinion of the authors and are not representative of the views of Milliman, Inc. Milliman does not certify the information, nor does it guarantee the accuracy and completeness of such information. Use of such information is voluntary and should not be relied upon unless an independent review of its accuracy and completeness has been performed. Materials may not be reproduced without the express consent of Milliman.

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