



Summary of regulatory developments

Updates for May 2021

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

The following table summarises the relevant updates identified in May.

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

Date	Description
6-May	European Insurance and Occupational Pensions Authority (EIOPA) publishes its Risk Dashboard based on the fourth quarter of 2020 Solvency II data
7-May	EIOPA launches its 2021 insurance stress test
13-May	The Financial Conduct Authority (FCA) publishes statement to encourage market participants in a switch to SONIA in the sterling exchange traded derivatives market from 17 June
14-May	FCA proposes plans of stronger protection for consumers in financial markets
17-May	EIOPA publishes a report on the implementation and functioning of the securitisation regulation
18-May	The Prudential Regulation Authority (PRA) publishes its statement on supervisory benchmarking exercise relating to capital internal models
20-May	FCA consults on use of new powers to support orderly wind-down of critical benchmarks
24-May	PRA sets out its Business Plan for 2021/22
28-May	EIOPA publishes its Q&A on regulation

Updates for May 2021

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

EIOPA

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

EIOPA publishes its Risk Dashboard quarterly.

The results show that insurers' exposures to macro risks remain at a high level while all other risk categories remain at a medium level. The European supervisors expect an increase in credit risks over the next 12 months, reflecting concerns over corporate indebtedness.

- EIOPA launches its 2021 insurance stress test

The 2021 stress test focuses on a prolonged COVID-19 scenario—in a “lower for longer” interest rate environment. The scenario, developed in cooperation with the European Systemic Risk Board (ESRB), will assess the impact of the economic consequences of the pandemic, including those which affect confidence worldwide and may prolong the economic contraction. Overall objectives include:

- Assessing the resilience to adverse scenarios from a capital and liquidity position.
- Considering possible recommendations to the industry and allowing supervisors to engage with insurers on potential actions.
- To complement the microprudential assessment with the estimation of potential spill-over from the insurance sector triggered by reactions to prescribed shocks.

- EIOPA publishes a report on the implementation and functioning of the securitisation regulation

The Joint Committee of the European Supervisory Authorities (ESAs, made up of the European Banking Authority, EIOPA and the European Securities and Markets Authority) published its analysis of the implementation and the functioning of the EU Securitisation Regulation (SECR).

The report is meant to provide guidance to the European Commission in the context of its review of the functioning of the SECR. It also provides initial inputs to the ongoing discussion on the efficiency of the securitisation framework given the role that securitisation could play in the recovery following the COVID-19 pandemic.

- EIOPA publishes its Q&A on regulation

Updates include the following:

- (EU) No. 2009/138 – Solvency II (SII) Directive (Insurance and Reinsurance). Questions [1760](#), [1848](#), [2032](#), [2052](#), [2061](#) and [2086](#).
- (EU) No. 2015/35 – supplementing Dir 2009/138/EC – taking up and pursuit of the business of Insurance and Reinsurance (SII). Questions [1502](#), [1720](#), [1857](#), [1898](#), [2052](#) and [2258](#).
- (EU) No 2016/97 – Insurance Distribution Directive. Questions [2264](#), [2265](#), [2266](#), [2267](#), [2268](#), [2269](#) and [2270](#).
- Risk-Free Interest Rate – VA representative portfolios. Question [1433](#).
- Other. Questions [1484](#) and [2016](#).

FCA

- [FCA publishes statement to encourage market participants in a switch to SONIA in the sterling exchange traded derivatives market from 17 June](#)

The FCA and Bank of England support and encourage market users and liquidity providers in the sterling exchange traded derivatives market to switch the default traded instrument to SONIA instead of LIBOR from 17 June this year. This is to facilitate a further shift in market liquidity towards SONIA, bringing benefits for a wide range of users as they move away from LIBOR.

- [FCA consults on use of new powers to support orderly wind-down of critical benchmarks](#)

FCA has published a consultation on its proposed policy framework for exercising two of its new powers under the Benchmarks Regulation (BMR), which will be introduced by the Financial Services Act 2021. These powers relate to the use of critical benchmarks that are being wound down and are:

- Legacy use power. This allows the FCA to permit some use of a benchmark for legacy reasons.
- New use restriction power. This allows the FCA the ability to restrict new uses of a benchmark where the FCA has been notified that the benchmark will cease to be provided.

The consultation is another key step in the wind-down of LIBOR.

- [FCA proposes plans of stronger protection for consumers in financial markets](#)

As part of the FCA's ongoing work to monitor and address behaviour that could lead to poor outcomes for consumers, the FCA is proposing to expand its existing rules and principles to ensure firms provide a higher level of consumer protection consistently, which will enable consumers to get good outcomes.

The new duty will drive a shift in culture and behaviour for firms, meaning that consumers always get products and services that are fit for purpose, that represent fair value and that are clearly communicated and understandable.

This will help, rather than hinder, consumers as they make choices with the confidence that they are receiving good customer service.

PRA

- [PRA publishes its statement on supervisory benchmarking exercise relating to capital internal models](#)

The PRA Rulebook requires relevant firms to annually report information on their internal approaches to the PRA. The PRA intends to prepare and consult on new UK standards for benchmarking purposes. Firms will not be required or expected to submit any data for the 2022 and 2023 benchmarking exercise. This includes credit risk, market risk and IFRS 9 data.

The supervisory benchmarking exercise for capital internal models has enabled the PRA to carry out assessments of firms' internal approaches for calculating own funds requirements. The reporting requirements for this exercise should be updated annually to ensure that the information collected remains relevant for supervisors.

- [PRA sets out its Business Plan for 2021/22](#)

The PRA 2021/22 Business Plan sets out the workplan for each of their strategic goals to support the delivery of the PRA's strategy, together with an overview of the PRA's budget for the period 1 March 2021 to 28 February 2022. It also details some of the highest-level actions to mitigate the impact of COVID-19 on the firms the PRA regulates, and on the UK economy.



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