



Summary of regulatory developments

Updates for April 2022

This memo identifies and summarises any regulatory updates published during April 2022 that may be of relevance to life insurance companies.

The following table summarises the relevant updates identified in April.

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

Date	Description
5-Apr	The European Insurance and Occupational Pensions Authority (EIOPA) publishes its Q&A on regulation
5-Apr	EIOPA publishes fourth report on the costs and past performance of insurance and pension products
7-Apr	EIOPA issues supervisory statement on supervision of run-off undertakings
12-Apr	EIOPA calls for changes to stress test disclosure regime
13-Apr	The European Supervisory Authorities (ESAs) see recovery stalling amid existing and new risks
13-Apr	EIOPA consults on draft Guidelines on integrating the customer's sustainability preferences in the suitability assessment under the Insurance Distribution Directive (IDD)
19-Apr	ESAs publish joint Annual Report for 2021
21-Apr	EIOPA finalises the revision of its Guidelines on Contract Boundaries and Guidelines on the Valuation of Technical Provisions
21-Apr	The Bank of England (BoE) announces the publication of the Climate Biennial Exploratory Scenario (CBES) results
29-Apr	EIOPA publishes advice on retail investor protection

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

Date	Description
26-Apr	The Financial Conduct Authority's (FCA) Nikhil Rathi delivers speech on "Critical issues in financial regulation: The FCA's perspective"
20-Apr	The Prudential Regulation Authority (PRA) sets out its Business Plan 2022/23
28-Apr	HM Treasury (HMT) publishes "Review of Solvency II" consultation

Updates for April 2022

This section highlights articles of interest to life companies released in April 2022.

ESAs

- ESAs [see recovery stalling amid existing and new risks](#)

The ESAs issued their first joint risk assessment report for 2022. The report highlights how recovery from the COVID-19 crisis appears to have been hindered due to new waves and variants of the virus, concerns regarding inflation risk, rising commodity prices and heightened geopolitical risks surrounding Russia's invasion of Ukraine. It also highlights a number of vulnerabilities across the financial sector as well as the rise of environmental and cyber risks.

In light of these risks and uncertainties, the ESAs advise national competent authorities, financial institutions and market participants to take the following policy actions:

- Prepare for further potential negative implications stemming from geopolitical tensions and comply with any sanctions regimes put in place
- Prepare for a possible deterioration of asset quality
- Closely monitor the impact of further increases in yields and sudden reversals in risk premiums
- Monitor risks to retail investors given that their participation in financial markets has increased substantially in recent years
- Incorporate environmental, social and governance (ESG) considerations into business strategies and governance structures
- Strengthen cyber resilience

- ESAs [publish joint Annual Report for 2021](#)

The Joint Committee of the ESAs published its 2021 Annual Report, providing a detailed account of its joint work completed over the past year.

Key work streams included:

- **Sustainability:** The development of the regulatory and supervisory framework for sustainability-related disclosures, including the delivery of two sets of draft Regulatory Technical Standards (RTS) under the Sustainable Finance Disclosure Regulation (SFDR).
- **Digital finance:** Extensive technical discussions on topics such as crypto assets and digital operational resilience.
- **Consumer protection:** Work to prepare the response to the Call for Evidence from the European Commission in the context of the review of the packaged retail and insurance-based investment products (PRIIPs) regulation, following the submission of the draft RTS in January 2021.
- **Securitisation:** The delivery of a report on the implementation and functioning of the Securitisation Regulation as well as an Opinion on its jurisdictional scope.

EIOPA

- 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 [2203](#), [2228](#), [2311](#), [2326](#), [2379](#) and [2378](#).

- EIOPA [publishes fourth report on the costs and past performance of insurance and pension products](#)

The analysis shows that insurance-based investment products (IBIPs) offered steadily positive returns in 2020. Unit-linked products delivered net returns of 6% on average, while hybrid and profit participation products delivered net returns of 2.0% and 1.4%, respectively. The shift from traditional profit participation products to hybrid and unit-linked products observed over the past years further accelerated in 2020. Turbulent market conditions due to the pandemic and the prospect of lower-for-longer interest rates amplified this trend.

EIOPA also carried out an analysis on a limited sample of products with sustainability features, which were shown to have strongly outperformed standard IBIPs. It is worth noting, however, that the timeframe of the analysis predates the entry into force of the SFDR harmonising ESG products.

- EIOPA [issues supervisory statement on supervision of run-off undertakings](#)

The run-off business model—when properly and fairly managed—can bring benefits for the insurance market and policyholders by enabling cost reduction, by introducing improvements in business management or by making orderly exits from the market to avoid the materialisation of risks.

However, EIOPA has observed a number of supervisory issues and challenges in this area. They relate to the specific risk profile of run-off business, difficulties regarding authorisation of the change of ownership or portfolio transfer and the lack of specific provisions for run-off in the Solvency II framework.

The aim of this supervisory statement is to ensure that a high-quality and convergent supervision is applied to run-off undertakings and portfolios while taking into account their specific nature and risks, the principle of proportionality and the prudent person principle.

- EIOPA [calls for changes to stress test disclosure regime](#)

EIOPA conducts EU-wide stress test exercises to assess the resilience of the European insurance industry and has until now communicated the results based on aggregated data. However, over recent years, the regulator has sought to further improve the transparency of the exercise through the publication of individual results. EIOPA believes this would enhance market discipline, increase participants' commitment and contribute to a level playing field, resulting in a healthier industry.

The majority of (re)insurers continue to raise concerns and show reluctance to individually disclose. EIOPA therefore considers that a change in the legal framework may be necessary to allow them to publicise the results of individual undertakings. EIOPA says that the ongoing review of Solvency II with a targeted amendment of Solvency II Directive (2009/138/EC) would provide a straightforward solution.

- EIOPA [consults on draft Guidelines on integrating the customer's sustainability preferences in the suitability assessment under the IDD](#)

The Guidelines stem from Commission Delegated Regulation (EU) 2021/1257 and aim at promoting a coherent application of the Delegated Regulation by insurance undertakings, as well as restricting the potential for the mis-selling of insurance products with regard to the sustainability preferences of consumers. EIOPA provides guidance on:

- Helping customers better understand “sustainability preferences” and their investment choices
- The collection of information on sustainability preferences from customers
- Matching customer preferences with products, based on the SFDR product disclosures

- When to assess sustainability preferences
 - The sustainable finance-related competences expected of insurance undertakings that provide advice on IBIPs
- Stakeholders are invited to provide feedback on this consultation by 13 May 2022.

- [EIOPA finalises the revision of its Guidelines on Contract Boundaries and Guidelines on the Valuation of Technical Provisions](#)

EIOPA published two Final Reports on the revision of the EIOPA Guidelines on Contract Boundaries and Guidelines on the Valuation of Technical Provisions. The aim is to provide additional guidance on a limited number of topics considered crucial from a supervisory convergence perspective. They include:

- Modelling biometric factors
- The apportionment of expenses
- Changes in expenses
- Assumptions used to calculate expected profits in future premiums
- Unbundling of contracts

The new and amended guidelines will be applicable from 1 January 2023.

- [EIOPA publishes advice on retail investor protection](#)

EIOPA has published its Final Report containing its advice to the European Commission on retail investor protection in relation to the sale of IBIPs. EIOPA's main findings fall under the following headings:

- Enhancing consumer engagement with disclosures, including digital disclosures
- Assessing the risks and opportunities presented by new digital tools and channels
- Tackling damaging conflicts of interest in the sales process
- Promotion of an affordable and efficient sales process
- Assessing the impact of complexity in the retail investment product market

FCA

- [FCA's Nikhil Rathi delivers speech on "Critical issues in financial regulation: The FCA's perspective"](#)

Highlights from the speech include:

- Cost-of-living crisis means consumers are more exposed to risk and more reliant on financial services
- The FCA's [new consumer duty](#) will ensure firms take into account "good outcomes" for consumers and clear rules will in future cut costs for firms
- Supporting innovation to encourage long-term economic growth and international competitiveness
- Post-Brexit, if you are a predominantly UK business, your regulated entity should be here to protect investors and the integrity of the markets

PRA

- [PRA sets out its Business Plan 2022/23](#)

The PRA 2022/23 Business Plan sets out the work plan for each of its strategic goals, together with an overview of the PRA's budget for the period in question.

The PRA's strategic goals fall into four areas:

- Retain and build on the strength of the banking and insurance sectors delivered by the financial crisis reform
- Be at the forefront of identifying new and emerging risks, and developing international policy
- Support competitive and dynamic markets
- Run an inclusive, efficient and modern regulator within the central bank

HMT

- HMT publishes "Review of Solvency II" consultation

The consultation covers the Risk Margin (RM), the Matching Adjustment (MA), investment flexibility and reducing reporting and administrative burdens.

On the same day, PRA published a [statement](#) in response and an accompanying [Discussion Paper, 2/22](#), setting out PRA's views on key aspects of the HMT consultation, in particular the RM and MA. Responses to the discussion paper are requested by 21 July 2022, which is when the consultation ends.

The proposed reforms could release 10% to 15% of the capital held by life insurers, through the combination of a reduction in RM and a reassessment of the Fundamental Spread (FS) used in the calculation of the MA.

Milliman published a [summary](#) on 29 April 2022 providing further details on the key areas of the HMT Review and PRA papers.

BOE

- BoE announces the publication of the Climate Biennial Exploratory Scenario (CBES) results

The CBES exercise on financial risks from climate change results are to be published on 24 May 2022. The objective of the CBES is to explore the vulnerability of the largest UK banks and insurers' business models to future climate-policy pathways and associated degrees of global warming. To do this, participants will measure the impact of the scenarios on their end-2020 balance sheets, which represent a proxy for their current business models.

Further background on the CBES can be found in the [Key elements document](#) of the 2021 Biennial Exploratory Scenario.



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