



Summary of regulatory developments

Updates for April 2021

This memo identifies and summarises any regulatory updates published during April 2021 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
6-Apr	European Insurance and Occupational Pensions Authority (EIOPA) publishes information on the use of limitations and exemptions from reporting under Solvency II
7-Apr	EIOPA publishes joint Annual Report for 2020
8-Apr	EIOPA launches its Insurance Distribution Directive (IDD) Single Rulebook
8-Apr	The Prudential Regulation Authority (PRA) publishes CP8/21, "Regulated fees and levies: Rates proposals 2021/22"
9-Apr	EIOPA publishes the results from its yearly study on the modelling of market and credit risk
13-Apr	EIOPA consults on framework to address value for money risk in the European unit-linked market
13-Apr	The Financial Conduct Authority (FCA) delivers the speech "Regulating the UK as a Global Financial Centre"
14-Apr	EIOPA publishes third report on cost and past performance of insurance-based investment products and personal pension products
14-Apr	PRA and FCA publish joint Statement on the FSB Peer Review on remuneration
19-Apr	EIOPA issues Opinion on the supervision of the use of climate change risk scenarios in the own risk and solvency assessment (ORSA)

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

Date	Description
20-Apr	PRA publishes its supervisory disclosures in line with Solvency II, including insurance regulations applicable in the UK
26-Apr	FCA delivers the speech "Compliance, Culture and Evolving Regulatory Expectations"
29-Apr	EIOPA publishes a discussion paper on blockchain and smart contracts in insurance
30-Apr	EIOPA consults on Interbank Offered Rates (IBOR) transitions

Updates for April 2021

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

EIOPA

- EIOPA publishes information on the use of limitations and exemptions from reporting under Solvency II

EIOPA published its annual report on the use of exemptions and limitations from the regular supervisory reporting by national competent authorities (NCAs) under Solvency II, during 2019 and the first quarter (Q1) of 2020. Regarding quarterly reporting in Q1 2020, 12 NCAs granted limitations to 833 solo undertakings and four NCAs granted limitations and exemptions to 55 groups. Regarding annual reporting for solo undertakings, five NCAs granted limitations and exemptions from reporting using the item-by-item templates to 125 solo undertakings in 2019 and one NCA granted limitations and exemptions from annual reporting to six groups in 2019.

- EIOPA publishes joint Annual Report for 2020

The Joint Committee of the European Supervisory Authorities (ESAs)—European Banking Authority (EBA), EIOPA and European Securities and Market Authority (ESMA)—published its 2020 Annual Report, providing a detailed account of all the joint work completed over the past year. The Joint Committee played a pivotal role in 2020 to ensure close cooperation among the Authorities in the context of the COVID-19 pandemic.

- EIOPA launches its IDD Single Rulebook

The Single Rulebook is an online tool that further promotes the consistent implementation of the regulatory framework for insurance supervision. The main benefit of the Single Rulebook is that it enables the navigation across different legal acts such as: the Directive; Delegated and Implementing Regulations; EIOPA Guidelines; and IDD questions and answers submitted via EIOPA's Q&A process. The aim of this tool is to improve the understanding of the applicable rules and promote the European internal market.

- EIOPA publishes the results from its yearly study on the modelling of market and credit risk

This year's study includes the effects on the modelling of market and credit risk resulting from the COVID-19 crisis, as well as sustainability and dependency structures. The report provides the following conclusions:

- Credit risk charges for sovereign bonds across groups of modelling approaches show relatively low variation for bonds issued by Austria, Belgium, France, Germany and the Netherlands. The variation is greater for the bonds issued by Ireland, Italy, Portugal and Spain.
- Credit risk charges for corporate bonds are generally higher for bonds with lower credit ratings and the variation increases materially with worsening credit quality.
- For equity risk, undertakings in general show less variation in the risk charges for major equity indices compared to risk charges applied to the strategic equity participations.
- For the real estate category, model calibrations tend to place more emphasis on the risk profile of the undertakings' actual investment portfolio and less on publicly available indices.

- EIOPA [consults on framework to address value for money risk in the European unit-linked market](#)

This consultation is a response to EIOPA's concerns that, while unit-linked products can and often do offer important benefits for policyholders, costs for some unit-linked products continue to remain too high. These preexisting concerns have been heightened by the COVID-19 crisis. The low interest rate environment, coupled with market shocks and the risk that households will need increased access to liquidity, emphasise how important it is that unit-linked products always offer value to consumers.

- EIOPA [publishes third report on cost and past performance of insurance-based investment products and personal pension products](#)

This report provides an analysis of costs for 2019 and past performance for the 2015-2019 period. The report also presents some considerations on the impact of COVID-19 on these products. For insurance-based investment products (IBIPs) 2019 was an extremely positive year at the European level and showed a positive net return across all member states. The report provides analysis of the performance and costs for profit participation products and unit-linked and hybrid products as well as personal pension products.

- EIOPA [issues Opinion on the supervision of the use of climate change risk scenarios in the ORSA](#)

In this Opinion EIOPA sets out expectations on the supervision of the integration of climate change risk scenarios by insurers in their ORSAs. The (re)insurance industry will be impacted by climate change-related physical and transition risks. However, only a minority of insurers assess climate change risks in the ORSA using scenario analysis, usually limited to a short-term time horizon. Therefore, EIOPA considers it essential for firms to foster a forward-looking management of these risks to ensure the long-term solvency and viability of the industry.

- EIOPA [published a discussion paper on blockchain and smart contracts in insurance](#)

The aim of the paper is to provide a high-level overview of the risks and benefits of blockchain and smart contracts in insurance from a supervisory perspective as well as to gather feedback from stakeholders.

EIOPA invites stakeholders to provide their views on this discussion paper by filling in the EU survey by 29 July 2021.

- EIOPA [consults on IBOR transitions](#)

The consultation considers adjustments to EIOPA's risk-free rate (RFR) methodology and production, in light of the EU Benchmark Regulation (EU BMR) which requires financial benchmarks to be transparent and to measure the underlying economic reality in a representative way. EIOPA is seeking to adopt a common approach for all currencies on the transition to the new rates in order to continue producing consistent RFR term structures.

FCA

- The FCA, delivers the speech "[Regulating the UK as a Global Financial Centre](#)"

Highlights from the speech include:

- The FCA is fully committed to maintaining open and fair UK markets—and will continue to regulate in the interests of consumers, competition and market integrity.
- Whilst markets are open, firms serving UK customers and businesses will need to meet consistently high standards, and there will need to be strong supervisory cooperation between respective jurisdictions.
- The FCA will continue to work with international counterparts to shape global standards and to work towards regulatory convergence and cooperation on cross-border issues.

- The FCA, delivers the speech "[Compliance, Culture and Evolving Regulatory Expectations](#)"

The speech focussed on the Senior Managers and Certification Regime (SMCR) with highlights including:

- The SMCR has changed the way firms allocate responsibilities, align those responsibilities to relevant controls and ensure oversight as to how these controls operate down the line.
- The 5 Conduct Questions (5CQ), which start with "tone from the top," are increasingly focussing on "tone from within," which requires every person in an organisation to be personally accountable and engaged.
- Every employee of a regulated firm is subject to individual conduct rules, which impose broad obligations.
- The SMCR and 5CQ questions require firms to think about how a system or function might fail because of noncompliance, and they inject a sharper focus on conduct risk into the fabric of an organisation.
- As demonstrated by enforcement cases, failures are not necessarily failures of compliance, but the consequence of choices made by individuals.

PRA

- The Prudential Regulation Authority (PRA) [publishes CP8/21, "Regulated fees and levies: Rates proposals 2021/22"](#)

This consultation paper (CP) sets out proposals for the PRA's fees for 2021/22. The proposals would make amendments to the fees part of the PRA Rulebook (Appendix).

The proposals include:

- The fee rates to meet the PRA's 2021/22 Annual Funding Requirement (AFR)
- Fees applicable to firms in the temporary regimes
- Changes to new firm authorisation fees and Variation of Permission (VoP) regulatory transaction fees
- Information setting out how the PRA intends to distribute a surplus from the 2020/21 AFR, as well as the retained penalties for 2020/21

This consultation closes on 20 May 2021, with the changes expected to be effective from 8 July 2021.

- PRA and FCA [publish joint Statement on the FSB Peer Review on remuneration](#)

The Financial Stability Board (FSB) has conducted a peer review into the effectiveness of remuneration reforms in the UK financial market. Remuneration is important for setting incentives that are consistent with effective risk management and prudent decision making, to support the long-term viability of firms.

The final report highlights that the UK remuneration approach is consistent with the FSB [Principles](#) and [Implementation Standards](#) for Sound Compensation Practices. It also notes the effectiveness of the UK's domestic framework and the strong collaboration between the PRA and FCA. The review team did make four recommendations to strengthen the UK's framework:

- Review the interaction between the UK's remuneration regimes and the SMCR
- Improve the efficiency of data collection
- Consider other supervisory approaches for assessing the effectiveness of the regime
- Provide additional guidance to the insurance sector to promote clarity and consistency of outcomes

The recommendations were welcomed by the UK regulatory authorities.

- [PRA publishes its supervisory disclosures in line with Solvency II, including insurance regulations applicable in the UK](#)

The PRA published [supervisory disclosures](#) in line with its obligations under Article 31(2) of the Solvency II Directive.

These disclosures include:

- Aggregate statistical data on key aspects of the application of the prudential framework
- A table covering the manner of exercise of the options provided for in the Solvency II Directive
- Links to the texts of insurance regulations applicable in the United Kingdom
- Links to the PRA's supervisory approach

The aim is to foster a uniform level of transparency and accountability between supervisory authorities.



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