Summary of regulatory developments

Updates for May 2024

This memo identifies and summarises any regulatory updates published during May 2024 which may be of relevance to life insurance companies.

The following table summarises the relevant updates identified in May.

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

Date	Description
2-May	The European Insurance and Occupational Pensions Authority (EIOPA) publishes the results of its Peer Review on the supervision of the Prudent Person Principle (PPP) under Solvency II
10-May	The Financial Conduct Authority (FCA) Executive Director delivers speech on Consumer Duty implementation
14-May	EIOPA publishes its Insurance Risk Dashboard based on fourth quarter of 2023 Solvency II data
21-May	The Prudential Regulatory Authority's (PRA's) external member of the Financial Policy Committee delivers speech on balancing the productivity opportunities of financial technology and artificial intelligence (AI) against potential risks
23-May	PRA publishes PS8/24, "The PRA's approach to the authorisation and supervision of insurance branches"
30-May	The European Supervisory Authorities (ESAs) publish materials for dry run exercise to support Digital Operational Resilience Act (DORA) implementation
31-May	EIOPA publishes its Q&A on regulation

Updates for May 2024

This section highlights articles of interest to life companies released in May 2024.

ESAS

- **ESAs publish materials for dry run exercise to support Digital Operational Resilience Act (DORA) implementation**

  The materials published are intended to support the dry run exercise on the reporting of registers of information in the context of DORA announced in April 2024. The materials also aim to help financial entities understand the supervisory expectation for reporting such registers from 2025 onwards. The materials provided are:

  - Templates for the registers of information with example (in Excel).
  - Draft technical package for reporting, including data point model (DPM), annotated table layout and validation rules.
  - Optional tool—Visual Basic Application (VBA) macro—to assist with the conversion of Excel templates into .csv files and .zip files for submission.
  - Frequently asked questions regarding the exercise.

  The ESAs have invited financial entities to take part in a dedicated virtual workshop on 10 June to further support the dry run exercise. Registration closes on 5 June.

  Participating financial entities are expected to submit their registers of information to the ESAs through their competent authorities between 1 July and 30 August.

EIOPA

- **EIOPA publishes the results of its Peer Review on the supervision of the Prudent Person Principle (PPP) under Solvency II**

  The review focused on the supervision of investments in nontraditional and complex assets. This includes derivatives, and the use of such assets in unit-linked and index-linked contracts where market risk is typically borne by the policyholder. The peer review draws on responses provided by national supervisors to a self-assessment questionnaire covering six broad topics from national supervisory frameworks and the treatment of individual investments to the valuation of investment and supervisory activities and actions.

  EIOPA analysed 15 areas related to the supervision of the PPP and issued 49 recommended actions to 22 national competent authorities (NCAs). The recommendations included actions such as:

  - Regarding complex/nontraditional investments, internal NCA guidance should be developed to ensure a common approach during supervision or publishing guidance to the market on what type of assessments would need to be carried out prior to investing in risky/complex investments.
  - Improvement of supervision of derivatives either through regularly performing detailed off-site analyses and on-site inspections, or by providing detailed guidance on the supervision of derivatives used for hedging and efficient portfolio management.
  - Development, maintenance and use of PPP risk indicators to implement data-driven supervision.
  - Provide specific supervisory expectations to insurers on how to assess whether investments for unit-linked and index-linked contracts are made in the best interests of policyholders.

  Recommended actions were also issued regarding NCA supervisory tools, the security, quality, liquidity and profitability of the portfolio; asset-liability management; valuation of investments; and the control of the risks of underlying assets for unit-linked and index-linked contracts. The fact sheet provides a detailed overview of the recommended actions.

  EIOPA will monitor and assess NCAs' compliance with the recommended actions. EIOPA will also consider methods to reflect the overall findings of the peer review in its work on supervisory convergence.

- **EIOPA publishes its Insurance Risk Dashboard based on fourth quarter of 2023 Solvency II data**

  The results of the dashboard show that insurers' exposures to the following risks are currently the main concern for the insurance sector:

  - On macro risks, some forward-looking indicators have eased and point to positive developments, but gross domestic product (GDP) growth remains relatively low by historical standards.
  - Credit risks are steady following a slight decrease in credit default swap spreads but remain closely monitored due to insurers' high exposure to sovereign and corporate bonds.
  - Market risks continue to pose challenges, driven by market volatility and declining commercial real estate priced in the first half of 2023.
  - Liquidity and funding risks remain stable at a medium level; however, lapse rates are being closely monitored as they increased at the end of last year.
  - Profitability and solvency risks are at a stable medium level, with improved returns in end-2023 compared to 2022 and stable solvency ratios in the fourth quarter of 2023 compared to previous quarters of 2023.
  - Insurers' interlinkages and imbalances with other parts of the financial system are being closely monitored, as financial activities other than banking and insurance have slightly increased in the fourth quarter of 2023.
  - Regarding insurance risks, premium growth has been positive for both life and non-life segments and there was a slight deterioration in the median loss ratio.
  - Environmental, social and corporate governance (ESG)-related risks remain stable, but digitalisation and cyber risks in the first quarter of 2024 slightly increased as well as the indicator on cyber negative sentiment.

- **EIOPA publishes its Q&A on regulation.**

  Updates include the following:

  - Risk-Free Interest Rate – Credit and currency adjustments. Question 3081.
  - Risk-Free Interest Rate – Extrapolation. Question 3092.
  - (EU) 2023/894 – Information technology and systems (ITS) with regard to the templates for the submission of information necessary for supervision. Questions 2659, 2774, 2920 and 2969.

FCA

- **FCA Executive Director delivers speech on Consumer Duty implementation**

  Highlights from the speech include:

  - The Consumer Duty comes into force 31 July, giving firms less than three months for implementation.
  - The FCA will prioritise the most serious breaches and act swiftly and assertively where it finds evidence of harm or risk of harm to consumers.
  - The aim of the Consumer Duty is to help the UK financial services industry remain world-leading proponents of financial services, as firms strive to innovate and offer the best to compete for customers.

PRA

- **PRA publishes PS8/24, "The PRA's approach to the authorisation and supervision of insurance branches"**

  In October 2023, the PRA published consultation paper (CP) 21/23, which outlined the proposal to consolidate and formalise existing policy on overseas insurers operating in the UK through third-country branches.

  This policy statement (PS) provides feedback to responses the PRA received and includes the final policy. This reflects a new statement of policy (SoP) that replaces supervisory statement (SS) 2/18 and two versions of the updated SS44/15, "Solvency II: Third-country insurance and pure reinsurance branches."

  The two versions of SS44/15 are current and future versions. The current version solely incorporates the amendments proposed by CP21/23 and has an effective date of 23 May 2024. The future version builds on the current version by incorporating the changes confirmed in PS3/24, "Review of Solvency II: Reporting and disclosure Phase 2 near-final."

- **PRA's external member of the Financial Policy Committee delivers speech on balancing the productivity opportunities of financial technology and AI against potential risks**

  Highlights from the speech include:

  - According to the 2022 Machine Learning (ML) Survey conducted by the Bank of England and FCA, 72% of financial services respondents reported using or developing ML applications. Firms are predominantly developing or using ML for customer engagement (28%), risk management (23%) and support functions like human resources and legal departments (18%).
  - The precise impact AI and technology will have on the economy comes down to a question of speed and scale, with lots of uncertainty.
  - When innovation is incremental it is easier for regulators to understand the consequences of their action and to do a reasonable job of undertaking regulatory actions that align with achieving their financial stability goals.
  - When innovation is disruptive it is much more difficult for regulators to know what actions to take to achieve financial stability goals and what the unintended consequences could be for both stability and for growth and innovation.
  - As AI advances, a key concern relates to the interpretability of models.
  - Operational resilience is becoming more important to financial stability as AI and fintech play greater roles in the provision of financial services.
  - Productivity growth is crucial to boosting real wage growth and sustaining economic growth. AI may be the answer—but it could involve fundamentally disruptive innovation and change that brings both enormous upsides and potential risks.
  - The main challenge is developing a regulatory framework that fosters the flowering of creativity and innovation but considers the potential financial stability risks.

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