



# INSURANCE REGULATORY EBULLETIN

ROUND UP OF REGULATORY DEVELOPMENTS IN FEBRUARY 2022

IDEAS | PEOPLE | TRUST



# WELCOME TO OUR INSURANCE REGULATORY EBULLETIN

Welcome to this edition of our Insurance Regulatory eBulletin, which aims to keep you updated with significant regulatory developments and their implications across the insurance sector.

I am taking the opportunity to underline that BDO deplores the violation of international law and military aggression in all its forms. We stand with the Ukrainian people, and we wish for peace to be restored. We hope that any of your colleagues affected by the conflict are safe and well.

In the UK, we had a very peaceful month in terms of regulatory announcements. The most important news came from John Glen, the Economic Secretary to the Treasury, when speaking at the Association of British Insurers Annual Dinner. During his speech he set out in much more detail where exactly the Government's is focusing on in delivering its promised post-Brexit reform of Solvency II.

This bulletin contains as much up to date regulatory news as we can gather. Inevitably, this may change as the current situation develops and we will aim to keep you informed in the future.

Please do not hesitate to contact myself or your usual BDO contact if you have any concerns over any matter highlighted in this update.

Say safe and stay well and I hope you enjoy reading this latest update.



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# PRUDENTIAL REGULATION

## BIENNIAL EXPLORATORY SCENARIO EXERCISE ON FINANCIAL RISKS FROM CLIMATE CHANGE

On 9 February, the Bank of England [launched](#) the second round of the Biennial Exploratory Scenario (BES) exercise on financial risks from climate change. The objective of the Climate BES is to explore the financial risks posed by climate change for the largest UK banks and insurers (participants).

The deadline for participants' second round submissions is the 31 March 2022.

## REFORM OF SOLVENCY II

On 21 February, John Glen, the Economic Secretary to the Treasury, [speaking](#) at the Association of British Insurers Annual Dinner, outlined plans to slash bureaucracy and relax regulation in a move that intended to unlock growth and unleash investment in UK infrastructure.

The plans are intended to deliver the benefits of Brexit through an overhaul of insurance sector regulation to create a more tailored and dynamic regime and unlock investment in UK infrastructure.

Whilst protection for policyholders will remain a top priority, Mr Glen said the EU-focused, rules-driven and burdensome body of regulation would be reformed to become UK-focused, agile and easily adaptable. He said the new UK regime will facilitate rather than hinder market developments, support the entry of new and innovative firms and allow for the release of capital for productive investment.

The proposed Solvency II reforms, developed by HM Treasury alongside the PRA include:

- ▶ Substantially reducing the risk margin including a cut of around 60-70% for long-term life insurers.
- ▶ Reassessing the fundamental spread used to calculate the matching adjustment to better reflect its sensitivity to credit risk and avoid introducing material volatility on to balance sheets.

- ▶ Introducing a significant increase in flexibility to allow more investment in long-term assets such as infrastructure. To be achieved by:
  - Broadening the range of assets eligible for the matching adjustment portfolio to include assets with the option to change the redemption date. Such assets will include assets with construction phases and callable bonds.
  - Broadening the liabilities eligible for the matching adjustment to include income protection products and products that insure against morbidity risk.
  - Removing the severe treatment of assets in matching adjustment portfolios whose ratings fall below BBB.
  - Speeding up matching adjustment eligibility decisions by disconnecting them from the review of valuation, rating and capital issues for less complex assets.
  - Introducing a more proportionate approach to matching adjustment breaches.
  - Providing greater flexibility for how assets without historical data are treated.
- ▶ Major reduction in the EU-derived regulations which make up current reporting and administrative burden by:
  - Reducing the number of internal model standards to speed up the approval process, with safeguards to enable the PRA to ensure approved models are still of an acceptable quality.
  - Removing requirements for branches of foreign insurers to hold local assets and calculate local capital requirements.
  - Doubling the thresholds for the size and complexity of insurers before the

Solvency II regime applies, while giving small firms the option to opt in.

- Reforming reporting requirements such as providing reporting exemptions to new insurers and reducing the frequency of some reports and deleting others.
- Introducing a mobilisation regime for new insurers.
- Allowing more than one approach to calculating consolidated group capital requirements.
- Simplifying the calculation of the Solvency II transitional measures to reduce the administrative burden of maintaining legacy systems.

The Government will publish a full consultation document on the proposed UK reforms to Solvency II in April 2022. This will be followed by more detailed technical consultation by the PRA later in the year.

# CONDUCT REGULATION

## REGULATION ROUND-UP

On 24 February, the FCA published its monthly Regulation Round-up. The Hot Topics were:

- ▶ New financial sanctions measures in relation to Russia; and
- ▶ Its Portfolio Letter for credit rating agencies.

The items relevant to all sectors included:

- ▶ General Insurance value measures - firm reporting - a reminder that the first six monthly report was due on 28 February;
- ▶ Attesting compliance with General Insurance Pricing Practices rules - firms that received the FCA survey must respond in full or provide a nil return by 31 March;
- ▶ 2022/2023 fees and levies;
- ▶ PRIIPS update for UCITs funds;
- ▶ The ending of the Temporary Transitional Period (TTP); and
- ▶ The launch of its new investment scams campaign.

There were no specific items for general insurers and intermediaries other than those outlined above.

\* covered below

## FINANCIAL PROMOTIONS DATA 2021

On 3 February, the FCA [published](#) its analysis of the 2021 data arising from action taken against authorised firms breaching the financial promotion rules and the referrals and investigations into unregulated activity.

2021 saw an increase in amends/withdrawals of promotions and an overall increase of 10% of total reports received compared with 2020. Retail investments and retail lending were the sectors with the highest amend/withdraw outcomes, amounting to 77% of FCA interventions with authorised firms. The most common breaches were in the Retail Lending sector, in particular Claims Management Companies' and

Retail Finance promotions. The use of social media influencers on various platforms to market investments is becoming a concern. The FCA wants firms to ensure they have taken appropriate legal advice to understand their responsibilities prior to using influencers.

4% of the cases which resulted in firms withdrawing or amending a promotion came from the General Insurance & Protection sector.

## FCA APPROACH TO INNOVATION & SUPTECH

On 11 February, FCA published [the remarks](#) made by Jessica Rusu, FCA Chief Data, Information & Intelligence Officer, at the FCA RegTech Forum.

In the speech, Ms Rusu shared her plans for driving innovation at the FCA: by investing in necessary skills and technology, building digital regulation, and performing user journey mapping to understand customers' key challenges.

## BUSINESS INTERRUPTION INSURANCE TEST CASE - INSURER CLAIMS DATA

On 16 February, the FCA [published](#) its latest data (as of 7 February 2022) from all affected insurers on the progress of their non-damage business interruption (BI) insurance claims.

The aggregate value of the interim/initial payments made for the 3,029 (7 January: 3,358) unsettled claims where such payments have been made is £307.9m (7 January: £329.4m). The aggregate value of the payments made for the 30,176 (7 January: 29,027) claims where final settlements have been agreed and is £1,007m (7 January: £968m). Thus, 33,205 of the 42,307 who had had claims accepted, had received at least an interim payment.

## STATEMENT ON FUNERAL PLAN PROVIDER APPLICATIONS

From 29 July, the FCA will regulate funeral plan providers. On 15 February, the FCA published a [statement](#) summarising the steps it is taking to regulate funeral plan providers before July and the reasons for the need to bring such providers

under the authorisation and regulation of the FCA.

### **THE FCA'S APPROACH TO THE REVIEW OF PART VII TRANSFERS - FG22/1**

On 15 February, the FCA published its updated [guidance \(FG221/1\)](#) on its expectations on the steps for firms to take to ensure conduct issues are properly considered in Part VII transfers.

The guidance is designed to help with both the process and considerations of a Part VII transfer. It gives examples of comments the FCA have made or are likely to make to applicants and independent experts about their submissions on proposed Part VII transfers. It is hoped that it will help Applicants draft their proposals in ways that minimise challenge and lead to a more efficient review process.

### **NEW FINANCIAL SANCTIONS MEASURES IN RELATION TO RUSSIA**

On 22 February, the FCA made a [statement](#) on the tranche of sanctions on Russia announced by the UK government. Firms are required to have set up systems and controls to counter the risk that they might be used to further financial crime and this includes being compliant with financial sanctions obligations.

Firms should screen against the [UK Sanctions List](#) to meet these new sanctions measures and screen against the OFSI [list of asset freeze targets for financial sanctions obligations](#).

For firms that are involved in trade finance activities, the FCA referred to its 'Dear CEO letter' of September 2021, which provides additional guidance on sanctions considerations.

# INSURANCE ACCOUNTING

## FRS 103: INSURANCE CONTRACTS

On 31 January, the FRC published a [new edition](#) of FRS 103 Insurance Contracts and its [guidance](#) for the application of FRS 103 Insurance Contracts; the requirements or principles of FRS 102 to insurance contracts; and Schedule 3 to the Regulations.

The new edition of FRS 103 issued in January 2022 updates the 2018 edition of FRS for the following:

- ▶ Amendments to UK and Republic of Ireland accounting standards - UK exit from the European Union issued in December 2020;
- ▶ amendments to paragraph 57 of the Basis for Conclusions accompanying this standard to reflect the revised effective date of IFRS 17 Insurance Contracts; and
- ▶ some minor typographical or presentational corrections

## EIOPA

We continue to monitor EIOPA's activity and draw your attention to it where we believe it to be necessary or helpful. This will, we hope, assist those firms continuing to operate in the EU.

The following may be of interest to our readers.

### **PRINCIPLES OF INSURANCE STRESS TESTING - CLIMATE CHANGE**

On 27 January, EIOPA published [a paper](#) outlining the principles of a methodology that can be used to design bottom-up stress test exercises that aim to assess the vulnerability of insurers to climate risks.

# ENFORCEMENT ACTION

## PRA / FCA REGULATORY FINES ROUND-UP

FCA regulatory fines in 2022 total [£0.8m](#). No new fines have been announced by the PRA or FCA in 2022.

Barclays Bank plc	<p>Barclays Bank plc was fined £0.8m for failures in its oversight and monitoring of its business relationship with Premier FX, Barclays failed to conduct its business with due skill, care and diligence and thereby breached Principle 2.</p> <p>Premier FX was an authorised payment institution (“API”) which provided foreign exchange and money remittance services. Following the death of its sole shareholder and director in June 2018, serious shortfalls in monies held by Premier FX on behalf of its customers were identified. As a result, Premier FX was put into administration and then liquidation.</p> <p>In addition to payment services for which it was authorised, Premier FX offered its customers services, including the secure holding of monies and attractive exchange rate deals. These activities may have involved deposit-taking and dealing in investments, which Premier FX was not permitted to conduct. The FCA determined that Premier FX did not hold customers’ funds securely but used them for other purposes, meaning that they were not available when Premier FX was liquidated and this resulted in 167 customers losing a total of £10.1m.</p> <p>From 2006, Premier FX had a banking relationship with Barclays, and provided Premier FX with banking and foreign exchange services and categorised Premier FX as a money service business (“MSB”). Barclays assessed MSBs to be high-risk clients susceptible to increased money laundering risks and pose enhanced risk to Barclays in banking the sector.</p> <p>Barclays’ oversight and monitoring of Premier FX was inadequate in that it failed to ensure it made appropriate enquiries to ensure that Premier FX’s actual business activity aligned with Barclays’ expectation and failed to identify that Premier FX’s internal controls were deficient.</p>
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## ICO ENFORCEMENT ROUND-UP

Tempcover Ltd	<p>The ICO has fined Tempcover Ltd £85,000 for sending 30m unsolicited direct marketing messages by both text and email between 26 May 2019 and 26 May 2020, without valid consent.</p> <p>Tempcover operates as a provider of short-term motor insurance.</p>
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## FORMER CFO AND FINANCE DIRECTOR GUILTY OF MISLEADING INVESTORS

On 11 February, the FCA the result of a prosecution brought by the FCA against three former Redcentric Plc employees. Timothy Coleman, former CFO at Redcentric was found guilty of four charges concerning the making of

false and misleading statements to the market. The second defendant in the proceedings, Estelle Croft, Redcentric’s former Finance Director pleaded guilty to charges of making false statements and false accounting, and giving false statements to Recentric’s auditors, PwC. The third defendant, Fraser Fisher, former Chief

Executive Officer was acquitted by the jury of all charges.

Ms Croft was sentenced, prior to her trial, to a total of three years' imprisonment, and was ordered to pay £120,000 following confiscation proceedings.

Mr Coleman's sentencing will be heard on 3 March.

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