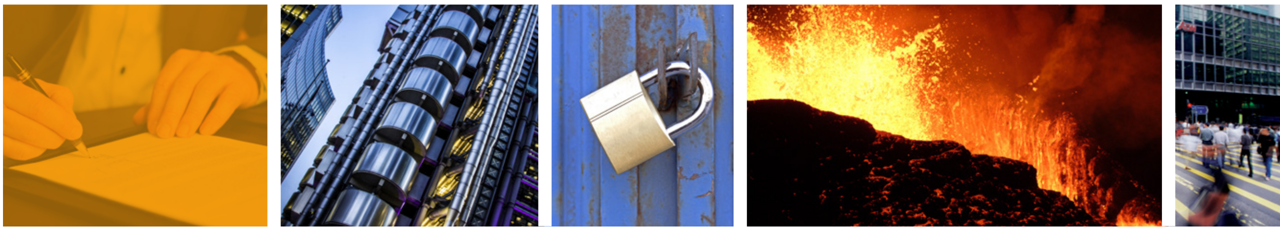
Insurance/
Reinsurance

7 April 2017

INSURANCE BULLETIN



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MENAIR INSURANCE AWARDS 2017 WINNER

UK CAPTIVE 2017 SERVICES AWARDS WINNER LAW FIRM HOLMAN FENWICK WILLAN

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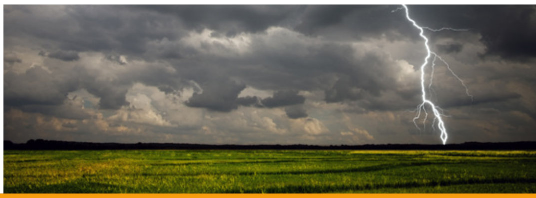

1. Regulation and legislation

EU: EIOPA letter on UFR calculation proposals

The European Parliament's Committee on Economic and Monetary Affairs (ECON) has published a letter received from Gabriel Bernardino, European Insurance and Occupational Pensions Authority (EIOPA) Chair, concerning EIOPA's review of the methodology for calculating the ultimate forward rate (UFR) under the Solvency II Directive *(2009/138/EC)*.

Risk-free interest rate term structures are used by insurance and reinsurance undertakings to discount the technical provisions they set up for their insurance and reinsurance obligations under Solvency II. UFRs are parameters used to determine risk-free interest rates, which are not directly derived from observed market rates but need to be extrapolated. For example, in the case of the term structure for obligations denominated in euro, the UFR influences the risk-free interest rates for maturities of more than 20 years.

The Solvency II Delegated Regulation requires that the UFR take account of expectations of the long-term real interest rate and of expected inflation. For most currencies, including the euro, it is currently set at the level of 4.2% as the sum of these two components. The long-term real interest rate is derived from long-term averages of past real rates (2.2%). The inflation rate is based in particular on the inflation target of the European Central Bank (2%).

EIOPA carried out a consultation on the UFR methodology in April 2016. In November 2016, ECON wrote to EIOPA suggesting that an additional impact assessment was required on the impact of the consultation proposals.

Mr Bernardino's letter sets out the findings of that additional impact assessment. The letter explains that EIOPA has, in particular, assessed the impact of changing the UFR by 20 basis points and by 50 basis points. EIOPA found that the impact of the changes was very small and manageable by insurance and reinsurance undertakings.

The letter goes on to say that:

- EIOPA is currently assessing how to address the concerns raised by ECON concerning annual changes of the UFR, and in particular the size of the annual limit for changes and measures to reduce the frequency of UFR changes and to increase the stability of the calculated UFR.
- EIOPA is considering delaying the first application of the UFR methodology, which was originally envisaged for the end of June 2017. Implementation is now expected to take place in late 2017/early 2018.
- The intention is for EIOPA's Board of Supervisors to have decided upon the UFR methodology and its first application at a meeting at the end of March 2017.

A copy of Mr Bernardino's letter can be found here: https://polcms.secure.europarl.europa.eu/cmsdata/115900/14%20Mar%202017%20EIOPA%20answer.PDF

For more information, please contact Ben Atkinson, Senior Associate, London, on +44 (0)20 7264 8238, or ben.atkinson@hfw.com, or your usual contact at HFW.

UK: FCA introduces new rules and guidance for retail general insurance market

On 1 April 2017, the Financial Conduct Authority's (FCA) new rules and guidance on improving customer engagement at renewal came into effect.

The rules proposed by the FCA in its consultation paper published in December 2015, required firms to:

- Disclose the previous year's premium at renewal.
- Include text to encourage consumers to check their cover and shop around for the best deal at each renewal.
- Identify consumers who have renewed with them four consecutive times and give these consumers additional messages that encouraged them to shop around.

These changes, which will affect insurers, insurance intermediaries and consumers in the retail general insurance market, are aimed at removing barriers to consumers shopping around for an insurance product that meets their needs, ensuring that consumers are treated fairly and that communications are clear, fair and not misleading in keeping with the FCA's Principles for Business.

Disclosure of previous year's premium

Firms will now have to disclose last year's premium on renewal notices to allow for easy comparison with the quoted renewal premium. Other information such as the end of introductory discounts can be included but not to the extent that it obscures the disclosure.



Consumers already know how to shop around to get the best price possible but it will be interesting to see whether this new level of transparency gives them greater confidence to ensure they are getting the right insurance product for their needs at a competitive price.

DAVINIA COLLINS, ASSOCIATE

Encouraging consumers to shop around

At each renewal, firms will be expected to have a message included in renewal notices which encourages consumers to shop around for the best price and to check their cover. The FCA is keen to stress that the messages should not focus on consumers getting the best price for their insurance product but rather there should be a balance between price and meeting the customers' needs.

Consumers who renew on a consecutive basis

For those consumers who renew with an insurer on four or more consecutive occasions, firms will now have to include the following prescribed additional 'shopping around' message, at the consumer's fourth consecutive renewal: *"You have been with us for a number of years. You may be able to get the insurance cover you want at a better price if you shop around"*.

This disclosure will not be required if there is a break in the chain of consecutive renewal.

The Association of British Insurers has been pressing for change since 2014 and so these changes will be welcomed. Consumers already know how to shop around to get the best price possible but it will be interesting to see whether this new level of transparency gives them greater confidence to ensure they are getting the right insurance product for their needs at a competitive price.

For more information, please contact Davinia Collins, Associate, London, on +44 (0)20 7264 8276, or davinia.collins@hfw.com, or your usual contact at HFW.

2. HFW publications and events

Dubai: HFW sponsors DIFC Insurance Association workshop on innovation

On 10 March, HFW will sponsor a Karen Morris innovation workshop hosted by the DIFIC Insurance Association. The workshop will discuss innovation and how it can help insurers and reinsurers grow their businesses and develop a culture which empowers their staff.