



## Regulatory developments in the global insurance sector

Vol. 20 (February to March 2022)



## Executive summary<sup>1</sup>

| Region | No | Organisation(s)                 | Date             | Regulatory developments   |
|--------|----|---------------------------------|------------------|---|
| Global | 1  | Financial Stability Board (FSB) | 17 February 2022 | <p>n <b>FSB Chair's letter that lays out FSB's policy work in 2022 was submitted to G20 Finance Ministers and Central Bank Governors' meeting in February.</b> Their policy work includes the following.</p> <ul style="list-style-type: none"> <li>Ø Reinforce financial system resilience in light of the Covid experience: <b>Enhancing NBF (non-bank financial intermediation) resilience</b> offers significant benefits and therefore continues to be a top priority for the FSB.</li> <li>Ø Harness the benefits of digitalisation while containing its risks: Financial institutions have made greater use of out-sourcing to third-party service providers, which has reinforced the importance of effective policies for <b>the oversight of their reliance on critical service providers.</b></li> <li>Ø Address <b>financial risks from climate change</b>: FSB contributes to all four pillars of its roadmap, i.e., disclosures, data, vulnerabilities analysis and regulatory and supervisory approaches.</li> </ul>   |
|        | 2  | Financial Stability Board (FSB) | 16 February 2022 | <p>n <b>FSB published a report on financial stability risks from crypto-assets.</b> The report examines vulnerabilities concerning three segments of the crypto-asset markets, i.e., unbacked crypto-assets, stablecoins and decentralised finance (DeFi) and crypto-asset trading platforms, etc. Key findings in the report include the following.</p> <ul style="list-style-type: none"> <li>Ø <b>Unbacked crypto-assets</b>: Crypto-assets become increasingly interconnected with the financial system. If the trend continues in the absence of effective regulation and supervision, financial stability risks may emerge.</li> <li>Ø <b>Stablecoins</b>: Global stablecoins, if adopted at scale, could have an adverse impact on the financial system through, for example, a disorderly run and redemption.</li> <li>Ø <b>DeFi and crypto-asset trading platforms</b>: Without sufficient regulation and supervision, DeFi and associated platforms could present risks to financial stability through, e.g., operational and cyber security incidents and failures of governance.</li> </ul> |
| Europe | 3  | European Commission             | 23 February 2022 | <p>n <b>European Commission adopted a proposed Directive on corporate sustainability due diligence.</b> Outlines of the Directive are as follows.</p> <ul style="list-style-type: none"> <li>Ø Objective: To foster the contribution of businesses to the respect of the human rights and</li> </ul>  |

<sup>1</sup> Volumes 1 to 12 of the report 'Regulatory developments in the global insurance sector' are available only in Japanese. This executive summary is a summary of the Japanese version of the Volume 20 report. It is advised that you refer to the respective original materials for accurate information.

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|          |   |  |                  | <p>environment in their own operations and through their value chains.</p> <ul style="list-style-type: none"> <li>Ø Scope of application: The Directive applies to (i) EU companies that have more than 500 employees and a net worldwide turnover of more than EUR 150 million, (ii) EU companies that have more than 250 employees and have a net worldwide turnover of more than EUR 40 million, at least 50% of which are generated in one of more of the specified sectors and (iii) non-EU companies that meet defined thresholds.</li> <li>Ø Due diligence: <b>Companies are required to conduct human rights and environmental due diligence.</b></li> </ul>   |
|          | 4 | Autorité de Contrôle Prudentiel et de Resolution (ACPR)              | 22 February 2022 | <p>n <b>ACPR published a report ‘Climate change risk governance’ that presents good practices of insurers in terms of climate risk management</b> focusing on five topics: strategy, risk management, communication, awareness-raising and organisation. Good practices in the report include the following.</p> <ul style="list-style-type: none"> <li>Ø Risk management: Some insurers perform quantitative and/or qualitative analyses of potential impact of climate risk on their financial soundness. Some insurers implement climate risk mitigation policies.</li> <li>Ø Organisation: Some insurers have one or more climate change specialist on their board or board committee. Some insurers have set up a climate risk committee.</li> <li>Ø Awareness raising: Some insurers assist policyholders in the prevention of climate risks and some others act as shareholders to make their counterparties aware of climate risks as shareholders.</li> </ul> |
| Americas | 5 | U.S. National Association of Insurance Commissioners (NAIC)          | 9 March 2022     | <p>n <b>NAIC sent a letter to the Congress regarding a proposed capital model by a rating agency.</b> NAIC expressed their concerns about the newly proposed approach as it can have a considerable adverse impact on the insurance sector in the U.S.</p>   |
|          | 6 | Canada Office of the Superintendent of Financial Institutions (OSFI) | 11 February 2022 | <p>n <b>OSFI updated two guidelines on reinsurance: (i) Sound Reinsurance Practices and Procedures and (ii) Property and Casualty Large Insurance Exposures.</b> These revised guidelines will become effective in January 2025 following a 3-year transition period.</p> <p>n Background to this update: A significant portion of risks underwritten in Canada has then been ceded outside of Canada, leaving little capital or vested assets held in Canada, mainly in the P&amp;C sector. These practices could expose insurers to increased risks such as counterparty and legal risks.</p>  |

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|              |    |   |                  | <p>n Under these updated guidelines insurers are expected to, for example:</p> <ul style="list-style-type: none"> <li>∅ <b>retain certain portion of insurance risks written;</b></li> <li>∅ have in place processes and procedures that ensure a comprehensive, written and binding reinsurance contract is executed prior to the effective date of reinsurance coverage; and</li> <li>∅ <b>have in place a comprehensive gross underwriting limit policy</b> that is consistent with their own risk appetite framework.</li> </ul>   |
| Asia Pacific | 7  | Australian Prudential Regulation Authority (APRA) | 8 March 2022     | <p>n <b>APRA updated its prudential standard on asset concentration risk charges to deal with risks associated with the growing use of offshore reinsurers by life insurers in Australia.</b> Under the new regulation the amount of reinsurance transactions with offshore reinsurers will be subject to certain caps.</p>  |
|              | 8  | Australian Prudential Regulation Authority (APRA) | 2 March 2022     | <p>n <b>APRA notified mid- and large-sized financial institutions of the commencement of a voluntary survey on the management of financial risks from climate change.</b> Key messages in the letter include the following.</p> <ul style="list-style-type: none"> <li>∅ The survey assesses the alignment of financial institutions practices with the expectations set out in APRA's guidance and the TCFD recommendations.</li> <li>∅ The survey is supposed to help incorporate climate-related risks into APRA's supervisory assessments.</li> <li>∅ De-identified peer-comparison results will be provided to participating entities.</li> </ul> |
|              | 9  | Hong Kong Insurance Authority (IA)                | 2 March 2022     | <p>n <b>IA published the 4<sup>th</sup> issue of its report on market conduct.</b> According to the report, 28% of the complaints received in 2021 were those relating to mis-conduct, such as mis-selling, claims handling, cross-border selling and allegations of fraud.</p>  |
|              | 10 | Australian Prudential Regulation Authority (APRA) | 17 February 2022 | <p>n <b>APRA stressed the importance of compliance risk management by financial institutions.</b> Key messages regarding APRA's approach to compliance risk include the following.</p> <ul style="list-style-type: none"> <li>∅ It is essential that compliance risk management remains a priority for senior management and boards.</li> <li>∅ <b>When there is a breach of a prudential standard, APRA focuses on the people, systems and processes that have contributed to the incident.</b></li> <li>∅ APRA considers an entity's compliance risk management processes.</li> </ul>  |

## Sources:

1. FSB 'FSB Chair's letter to G20 Finance Ministers and Central Bank Governors: February 2022'
2. FSB 'Assessment of Risks to Financial Stability from Crypto-assets'
3. EC 'Just and sustainable economy: Commission lays down rules for companies to respect human rights and environment in global value chains'
4. ACPR 'The ACPR publishes its first report on the governance of climate change risk in the insurance sector'
5. NAIC 'NAIC Shares Letters with Congress Regarding S&P Global's Proposed Capital Model'
6. OSFI 'OSFI publishes revised guidelines on reinsurance practices'
7. APRA 'APRA releases updated prudential standard to enhance management of reinsurance risks'
8. APRA 'APRA releases letter on upcoming climate risk self-assessment survey'
9. IA 'Latest edition of Conduct In Focus encourages best practice principles for insurers to handle complaints'
10. APRA 'How to manage compliance risk and stay out of the headlines'

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