



Regulatory developments in the global insurance sector

Vol. 22 (April to May 2022)



Executive summary¹

Region	No	Organisation(s)	Date	Regulatory developments
Global	1	Financial Stability Board (FSB)	29 April 2022	<ul style="list-style-type: none"> ■ FSB published a report ‘Supervisory and Regulatory Approaches to Climate-related Risks’ for consultation. The report provides 12 recommendations on supervisory reporting, data collection and tools, etc., which include the following. <ul style="list-style-type: none"> ➤ Where appropriate, supervisory and regulatory authorities should consider the need for third-party verification to strengthen the reliability of climate-related data. ➤ Authorities should begin with asking financial institutions to report to supervisors qualitative information supplemented with quantitative information. ➤ Jurisdictions are encouraged to expand the use of climate scenario analysis and stress testing as a tool for macroprudential purposes.
Europe	2	U.K. Prudential Regulation Authority (PRA)	4 May 2022	<ul style="list-style-type: none"> ■ PRA has launched its biennial insurance stress test. Its objectives are to assess sector resilience to severe but plausible adverse scenarios, etc. 17 life, 17 non-life and 21 managing agents of the Society of Lloyd’s are supposed to participate. ■ Major differences in the design from the previous stress test include the following. <ul style="list-style-type: none"> ➤ Life: To use a staged approach with the permitted management actions to achieve greater consistency across insurers. ➤ Non-life: To focus only on the insurance liability and property risks where two main scenarios, i.e., natural catastrophe scenarios and cyber underwriting scenarios, are tested.
	3	European Supervisory Authorities (ESAs)	2 May 2022	<ul style="list-style-type: none"> ■ ESAs presented their technical advice on the review of the PRIIPs Regulation, including the following, to the European Commission. <ul style="list-style-type: none"> ➤ Changes should be made to the Regulation so that KIDs can be adapted to digital and digital disclosure can be harnessed. ➤ ESAs are still of the view that past performance should be included in KIDs. ➤ It is recommended to have a new section in KIDs to show prominently where a PRIIP has sustainable investment as its objective or it promotes environmental/social characteristics.

¹ 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 22 report. It is advised that you refer to the respective original materials for accurate information.

	4 European Insurance and Occupational Pensions Authority (EIOPA)	29 April 2022	<ul style="list-style-type: none"> ■ EIOPA presented its technical advice on retail investor protection relating to the sale of Insurance-Based Investment Products (IBIPs), include the following, to the European Commission. <ul style="list-style-type: none"> ➤ National competent authorities should have the power to take action against misleading marketing communications that could increase with the use of digital technologies. ➤ The impact that the ‘choice architecture’ or ‘choice environment’ has on consumer decision making, which could increase where a market for digital platforms selling IBIPs and for open insurance further develops, should be addressed. ➤ EIOPA sees no single solution to improve the existing rules on inducements as the risk of inducements can lead to product bias and impact ‘value for money’ of IBIPs. It nevertheless considers that more needs to be done in this area.
	5 U.K. HM Treasury (HMT)	28 April 2022	<ul style="list-style-type: none"> ■ HMT published proposals for the review of Solvency II. HMT notes that the reform could result in a release of the capital by 10 to 15% for life insurers and lead to an increase in long-term investments. Major proposals include the following. <ul style="list-style-type: none"> ➤ Risk margin: To cut the risk margin by around 60 to 70% by using preferably a modified cost of capital methodology. ➤ Matching adjustment: To incorporate market measures of credit risk (credit risk premium) into the methodology for the calculation of a fundamental spread. Additionally, to relax the matching adjustment eligibility criteria for both assets and liabilities. ➤ Others: To remove the requirements for UK branches of foreign insurers to calculate branch capital requirements.
	6 U.K. Prudential Regulation Authority (PRA)	28 April 2022	<ul style="list-style-type: none"> ■ PRA showed its views on the Solvency II Review proposed by the HM Treasury, together with a consultation document on the reform of Risk Margin (RM) and Matching Adjustment (MA). PRA estimates that the reform could reduce overall capital levels for life insurers by around 10 to 15%. ■ PRA’s views include the following. <ul style="list-style-type: none"> ➤ PRA supports the objectives of the Review by the HM Treasury. ➤ PRA agrees that RM should be reformed to deal with concerns about the sensitivity and the volume. ➤ PRA considers that the Fundamental Spread should include an allowance for a credit risk premium to reflect the risks faced by insurers adequately.

7	U.K. Prudential Regulation Authority (PRA)	20 April 2022	<ul style="list-style-type: none"> ■ PRA sets out its business plan for 2022/2023. Major items relevant to the insurance sector include the following. <ul style="list-style-type: none"> ➤ Review of Solvency II: To consult on, e.g., a reduction in the level of the risk margin, adjustments to the design of the matching adjustment and simplification of processes for the approval of internal models. ➤ Operational resilience: To publish a discussion paper on potential additional measures to enhance the oversight of the systemic risks posed by critical third-party service providers. ➤ Climate change: To switch the PRA's approach to climate-related financial risk from assessing implementation to actively supervising against the threats. ➤ Digitalisation: To consider digitalisation risks to the insurance sector, including risks arising from fragmentation of the value chain and the use of machine-learning models as well as financial inclusion.
8	European Insurance and Occupational Pensions Authority (EIOPA)	13 April 2022	<ul style="list-style-type: none"> ■ EIOPA released a draft of the guidelines on the integration of the customers' sustainability preferences in the suitability assessment under the Insurance Distribution Directive for consultation. ■ The consultation paper provides guidelines on how customers' sustainability preferences should be assessed in the process of the suitability assessment. ■ As the European Commission Delegated Regulation 2021/1257 will be introduced in August 2022, EIOPA plans to finalise the guidelines before that.
9	European Supervisory Authorities (ESAs)	13 April 2022	<ul style="list-style-type: none"> ■ ESAs issued their first joint risk assessment report for 2022. Key messages relating to the insurance sector include the following. <ul style="list-style-type: none"> ➤ Financial institutions need to further incorporate ESG considerations into their business strategies and governance structures. ➤ Financial institutions should strengthen their cyber resilience measures. ➤ Unanticipated inflation is a source of risk for non-life insurers with long-tail lines of business.
10	European Insurance and Occupational Pensions Authority (EIOPA)	12 April 2022	<ul style="list-style-type: none"> ■ EIOPA expressed its opinion that powers should be given to EIOPA so that it can disclose the results of stress tests for each participating insurer. EIOPA considers that disclosures of individual results improve market transparency, enhance market discipline and contribute to a level-playing field. EIOPA expects that this will be addressed in the on-going review of Solvency II.

	11	European Insurance and Occupational Pensions Authority (EIOPA)	7 April 2022	<ul style="list-style-type: none"> ■ EIOPA finalised its supervisory statement on the supervision of run-off insurers/portfolios. The aim of the statement is to ensure high-quality and consistent supervision of run-off insurers/portfolios. ■ Supervisory expectations for the supervision of specialised run-off insurers, which are defined as entities or groups whose business model is to actively acquire legacy portfolios/insurers in run-off, include the following. <ul style="list-style-type: none"> ➤ Supervisors assess, e.g., financial soundness of the acquiring/accepting entity, the motivation for the acquisition and the impact on policyholders. ➤ Supervisory may request the acquirer to make commitments to safeguard the interests of policyholders, where the transaction affects the recoverability or amount of the claims. ➤ Supervisors should pay particular attention to the cases where private equity or similar investment entities are the acquirer as, for example, their investment time horizon is different from that of traditional shareholders.
Americas	12	U.S. National Association of Insurance Commissioners (NAIC)	8 April 2022	<ul style="list-style-type: none"> ■ NAIC adopted a new standard for insurers' climate-related risk reporting that is in alignment with the TCFD disclosure framework. Insurers that will be asked to participate in the 2022 NAIC Climate Survey are encouraged to complete the survey by the end of November 2022. It is noted that 15 states/territories participated in the survey in 2021.
Asia Pacific	13	Monetary Authority of Singapore (MAS)	28 April 2022	<ul style="list-style-type: none"> ■ MAS issued an information paper 'Strengthening AML/CFT name screening practices', in which MAS shows its expectations, including the following. <ul style="list-style-type: none"> ➤ Board and Senior Management (BSM) of a financial institution should set an appropriate tone-from-the-top on the importance of AML/CFT frameworks and controls relating to name screening processes. ➤ Adequate frameworks, policies and procedures on name screening controls are established.

Sources:

1. FSB 'Supervisory and Regulatory Approaches to Climate-related Risks: Interim Report'
2. PRA 'Insurance Stress Test 2022 cover letter to firms'
3. EIOPA 'ESAs recommend changes to make the PRIIPs key information document more consumer-friendly'
4. EIOPA 'EIOPA publishes advice on Retail Investor Protection'
5. UK Government 'Open consultation: Solvency II Review: Consultation'
6. PRA 'The PRA's statement on the 'Review of Solvency II' consultation published by HM Treasury'
7. PRA 'Prudential Regulation Authority Business Plan 2022/23'
8. EIOPA 'EIOPA consults on draft Guidelines on integrating the customer's sustainability preferences in the suitability assessment under the IDD'
9. EIOPA 'ESAs see recovery stalling amid existing and new risks'
10. EIOPA 'EIOPA calls for changes to stress test disclosure regime'
11. EIOPA 'EIOPA issues supervisory statement on supervision of run-off undertakings'
12. NAIC 'U.S. Insurance Commissioners Endorse Internationally Recognized Climate Risk Disclosure Standard for Insurance Companies'
13. MAS 'Strengthening AML/CFT Name Screening Practices'

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