Regulatory developments in the global insurance sector

Vol. 23 (May to June 2022)

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## Executive summary

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<th>Region</th>
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<th>Organisation(s)</th>
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| Global   | 1  | Network for Greening the Financial System (NGFS)                                  | 30 May 2022     | - **NGFS published its work programme for 2022-2024.** The 6 workstreams established include the following.  
  - Supervision: To foster progress towards incorporating climate/environmental risks in supervisory frameworks/practices.  
  - Scenario design and analysis: To undertake climate scenario analysis and promote its use.  
  - Nature-related risks: To help mainstream the consideration of nature-related risks. |
|          | 2  | Network for Greening the Financial System (NGFS)                                  | 19 May 2022     | - **NGFS released a report entitled ‘Capturing risk differentials from climate-related risks’.* Key messages in the report include the following.  
  - The report analysed the attempts to study potential credit risk differentials between green and non-green assets/activities. As a result, it was revealed that there is still limited empirical evidence of ex-post risk differentials.  
  - Methodology/data-related challenges have made risk differential analysis difficult. Those challenges include: financial institutions’ approaches to green/non-green classification remain heterogeneous; green/non-green classifications at the activity/asset level do not directly translate to potential risk differentials at the counterparty level; and conventional risk differential analysis based on historical data is backward-looking, not forward-looking.  
  - Given these data and methodological limitations, introducing adjustment factors into the Pillar 1 of the capital framework using conventional risk differential analysis remains a challenge. Nevertheless, there may be greater potential to consider Pillar 2 measures. Moreover, considering climate/environmental risks as part of Pillar 3 requirements could be beneficial. |
| Europe   | 3  | European Supervisory Authorities (ESAs)                                          | 1 June 2022     | - **ESAs published a report on the withdrawal of license for serious breaches of the rules on AML/CFT.** The report examined the action points, which include the following, articulated in Objective 5 of the AML Council Action Plan published in 2018.  
  - Degree of discretion in the decision to withdraw the authorisation. |

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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 23 report. It is advised that you refer to the respective original materials for accurate information.
Uniform interpretation of the language referring to serious breaches of AML/CFT rules in the Capital Requirements Directive

Consistent consideration of the consequences of license withdrawal, particularly in terms of the need to preserve critical functions in banks and the involvement of resolution authorities, etc.

ESAs’ conclusions presented in the paper include the following.

- It is opportune that all sectoral acts be amended to provide that competent authorities expressly consider the applicant’s exposure to ML/TF risk, etc. as part of the authorisation process.
- The AML/CFT supervisor should take into consideration the context of the breach when it assesses the seriousness. Therefore, assessments should be on a case-by-case basis.
- While the exchange of views between the relevant authorities involved, i.e., the resolution authority, the competent (prudential) authority and the AML supervisor, is considered essential, it is premature to draw conclusions at this stage.

### 4 Bank of England (BoE)
24 May 2022

**BoE published the results of its Climate Biennial Exploratory Scenario analysis (CBES).** Major findings relating to the insurance sector include the following.

- **Insurers have made progress in incorporating climate risk into their existing risk governance frameworks.** Some insurers have begun tracking their current portfolios against their respective net-zero carbon emission targets. Around half of the participating insurers have integrated climate scenarios into the stress/scenario tests in their ORSA reports.
- **Insurers’ asset values fall by 15% in the No Additional Action (NAA) scenario.** In the NAA scenario, around 90% of the 200 billion GBP of life insurers’ investment losses is passed through to policyholders or absorbed by the balance sheet.
- Banks plan to reduce lending to carbon-intensive corporate sectors, and insurers plan to reduce their exposures to similar sectors. These strategies of banks and insurers raise the possibility that some corporate sectors may struggle to access finance.

### 5 European Securities and Markets Authority (ESMA)
13 May 2022

**ESMA issued its recommendations on the initial implementation of IFRS 17,** in which it highlighted the need for insurers to provide relevant and comparable information that enables users to assess the possible impact of the initial application.

Where the impact is expected to be significant, ESMA expects insurers to (i) provide information about the significant accounting policy choices, such as methods for the calculation of the discount rate, (ii) disaggregate the expected impact and (iii) explain the nature of the impact on, e.g.,
| 6 | European Banking Authority (EBA) | 2 May 2022 | EBA published a discussion paper on the role of environmental risks in the prudential framework for banks and investment firms. The paper explores how environmental risks can be incorporated into the Pillar 1 of the prudential framework (i.e., credit risk, market risk, operational risk and concentration risk). Proposed key messages include the following.  
➢ Prudential regulation should remain risk-based and evidence-based. Any amendments associated with environmental risks to the framework should therefore be carefully considered.  
➢ The calculation of the minimum required level of own funds in the Pillar 1 of the prudential framework should be based on objective and observable values.  
➢ The overall prudential framework, including the Pillar 2, should be considered in a holistic manner to address environmental risks. |
| Americas | 7 | Canada Office of the Superintendent of Financial Institutions (OSFI) | 26 May 2022 | OSFI issued a draft of its guideline on climate risk management that is comprised of two chapters: (i) Governance and Risk Management Expectations and (ii) Climate-Related Financial Disclosures.  
➢ For governance and risk management, financial institutions are expected to, e.g., incorporate the implications of climate change in its business model and strategy as well as have processes in place to adequately price climate risk-sensitive assets and liabilities in addition to managing these exposures in accordance with their risk appetite framework.  
➢ For disclosures, information expected to be disclosed include the following from the fiscal year ending on or after 1 October 2023.  
➢ TCFD information on governance, strategy (scenario analysis information to be disclosed from 2027), risk management and metrics and targets (non-IAIGs to disclose from 2025 and 2026, respectively)  
➢ GHG emissions (non-IAIGs to disclose Scope 3 information from 2027)  
➢ Information stipulated in the IFRS S2 ‘Cross-Industry Metrics’ (some information to be disclosed from 2025) |
| 8 | U.S. Securities and Exchange Commission (SEC) | 25 May 2022 | SEC proposed amendments to rules and reporting forms to promote consistent, comparable and reliable information for investors concerning the incorporation of ESG factors into the products/services of funds and advisors. Major proposed changes include the following.  
➢ Funds that consider ESG factors in their investment process are required to disclose additional |
Certain ESG-Focused funds are required to provide additional information about their strategies, such as information on key metrics needed to assess their progress.

ESG-Focused Funds that take into account environmental factors in their strategies are required to disclose additional information on the GHG emissions associated with their investments.

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| Asia Pacific   | Bank Negara Malaysia (BNM)             | 3 June 2022  | **BNM published the ‘Exposure Draft on Cloud Technology Risk Assessment Guideline’**. Proposed requirements include the following.  
- A financial institution should ensure that robust cloud governance processes are established prior to cloud adoption and are subject to on-going review.  
- A financial institution should ensure effective oversight over cloud service providers and their sub-contractor(s).  
- A financial institution should establish a robust cloud exit strategy as part of its cloud risk management framework. |
|                | Monetary Authority of Singapore (MAS)  | 31 May 2022  | **MAS released ‘Information Papers on Environmental Risk Management’** for banks, asset managers and insurers, respectively. The information papers highlight good practices and challenges in implementing MAS’s Guidelines on Environmental Risk Management based on the findings from a survey conducted for selected institutions.  
- Findings in the insurance sector include the following.  
  - Risk appetite: Most insurers have taken steps to address environmental risk in their risk appetite framework. A few insurers have developed quantitative risk appetite measures and metrics.  
  - Investment: Insurers are encouraged to consider environmental impacts from a macro, top-down and from a more granular bottom-up asset selection perspective.  
  - Underwriting: Most of the insurers have a process in place to escalate transactions that exceed certain environmental risk thresholds to the relevant specialists within their organisations. |
Sources:
1. NGFS ‘NGFS publishes its 2022-2024 work program’
2. NGFS ‘NGFS publishes two new documents on climate-related risk differentials and credit ratings’
3. EIOPA ‘The ESAs publish the joint Report on the withdrawal of authorisation for serious breaches of AML/CFT rules’
5. ESMA ‘ESMA MAKES RECOMMENDATIONS FOR DISCLOSURES OF EXPECTED IMPACTS OF IFRS 17 APPLICATION’
6. EBA ‘EBA launches discussion on the role of environmental risks in the prudential framework’
7. OSFI ‘OSFI consults on expectations to advance climate risk management’
8. SEC ‘SEC Proposes to Enhance Disclosures by Certain Investment Advisers and Investment Companies About ESG Investment Practices’
9. BNM ‘Exposure Draft on Cloud Technology Risk Assessment Guideline (CTRAG)’
10. MAS ‘Information Papers on Environmental Risk Management’
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