



Regulatory developments in the global insurance sector

Vol. 27 (September to October 2022)



Executive summary¹

Region	No	Organisation(s)	Date	Regulatory developments
Global	1	International Organization of Securities Commissions (IOSCO)	15 September 2022	<ul style="list-style-type: none"> ■ IOSCO expressed its view on the development of sustainability-related assurance and ethics standards by the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). Key messages include the following. <ul style="list-style-type: none"> ➤ IOSCO welcomes the IAASB and the IESBA to develop sustainability-related standards that build on the requirements and principles of existing standards. It is important that these standards support connectivity in assurance services between sustainability-related information and financial reporting. ➤ IOSCO encourages the IAASB to set clear requirements that promote transparency over which elements are subject to assurance, the standards applied, the conclusions reached and whether limited or reasonable assurance has been provided. ➤ IOSCO encourages the IAASB to consider that sustainability-related reporting involves a more extensive narrative component, more forward-looking information and a heavier reliance on information on regarding the issuer’s value chain, etc.
Europe	2	European Insurance and Occupational Pensions Authority (EIOPA)	4 October 2022	<ul style="list-style-type: none"> ■ EIOPA issued a warning to insurers and banks to address consumer protection issues relating to the sales of credit protection insurance (CPI) products. Key messages expressed in the warning include the following. <ul style="list-style-type: none"> ➤ Manufacturers of CPI products should ensure that their products are designed to meet the needs of the identified target market. ➤ Manufacturers should ensure that testing assesses whether their products offer value to the target market. Assessments should include an evaluation of whether all costs are proportional to the expenses borne by the manufacturer and distributor, as well as the benefit. ➤ Insurers and banks are expected to assess and review their distribution and remuneration arrangements to ensure that they always act honestly, fairly and professionally in accordance with the best interests of their customers.
	3	European	30	<ul style="list-style-type: none"> ■ EIOPA published its strategy for 2023 to 2026. Strategic priorities include the following.

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

	Insurance and Occupational Pensions Authority (EIOPA)	September 2022	<ul style="list-style-type: none"> ➤ Sustainable finance: Contribute to building up sustainable insurance and pensions, including addressing protection gaps. ➤ Digital transformation: Support the supervisory community and the industry to mitigate risks and seize the opportunities of digital transformation. ➤ Supervision: Promote sound, efficient and consistent prudential and conduct supervision. ➤ Financial stability: Further enhance financial stability with particular focus on the analysis of financial sector risks, vulnerabilities and emerging threats.
4	Financial Conduct Authority (FCA)	29 September 2022	<ul style="list-style-type: none"> ■ FCA warned insurers to protect customers' well-being during the cost-of-living squeeze. Key supervisory expectations expressed in the warning include the following. <ul style="list-style-type: none"> ➤ Where insurance customers are in financial difficulty, insurers should give them appropriate support, which includes reassessing the risk profile of customers, working with customers to avoid cancelling necessary cover and waiving fees that are normally charged for adjusting a customer's policy. ➤ Insurers must consider whether non-investment insurance products (including when sold with premium finance) represent fair value for customers. Insurers must give consumers clear information about the cost of any premium finance arrangement. ➤ Insurers are expected to consider the impact on customers when taking steps to reduce costs in customer support functions.
5	European Systemic Risk Board (ESRB)	22 September 2022	<ul style="list-style-type: none"> ■ ESRB issued a warning on vulnerabilities in the European Union's financial system. Main messages in the warning include the following. <ul style="list-style-type: none"> ➤ The probability of tail-risk scenarios materialising has increased since the beginning of 2022 and has been exacerbated by recent geopolitical developments. ➤ A pronounced deterioration in economic activity could lead to a renewed increase in credit risk. Risks to financial stability stemming from a sharp fall in asset prices remain severe. The probability of large-scale cyber incidents impacting the financial system has increased. ➤ Financial stability risks beyond the banking sector should also be addressed. This requires tackling vulnerabilities and increasing the resilience of non-bank financial institutions and market-based finance.
6	European Insurance and	22 September	<ul style="list-style-type: none"> ■ EIOPA issued a supervisory statement on the management of non-affirmative cyber exposures. The objective of the statement is to deliver on EIOPA's strategic priorities for the European cyber

	Occupational Pensions Authority (EIOPA)	2022	<p>insurance market with specific reference to non-affirmative cyber risk and the sound management of policy wording as well as the presentation of information.</p> <ul style="list-style-type: none"> ■ Key messages in the statement include the following. <ul style="list-style-type: none"> ➤ Supervisors are expected to supervise insurers in a more holistic and risk-based manner, focusing on, in particular, overall business strategy and cyber risk appetite, the identification and measurement of risk exposures and cyber underwriting risk management. ➤ Supervisors should ensure that insurers regularly adjust pricing and account for capital positions regarding overall cyber risk exposure to ensure compliance with insurers' risk appetite. ➤ Where insurers are potentially materially exposed to non-affirmative cyber risks, this should be reflected in the design of scenarios used in their ORSA process.
7	European Insurance and Occupational Pensions Authority (EIOPA)	22 September 2022	<ul style="list-style-type: none"> ■ EIOPA issued a supervisory statement on exclusions in insurance products in relation to risks arising from systemic events. The objective of the statement is to promote convergence on the supervision of the treatment of exclusions relating to risks arising from such events. Key messages in the statement include the following. <ul style="list-style-type: none"> ➤ When developing new products, insurance manufacturers should take exclusions into account in the identification and definition of the target market for the product. Furthermore, they should test the exclusions vis-à-vis the target market's needs, objectives and characteristics. ➤ In case of significant adaptation of the product, manufacturers are expected to evaluate the degree of impact caused by the changes to exclusions, the continued suitability of the product for the target market and the continued consistency of the distribution strategy with respect to the changes in the insurance products.
8	European Supervisory Authorities (ESAs)	20 September 2022	<ul style="list-style-type: none"> ■ ESAs (i.e., European Banking Authority, EIOPA and European Securities and Markets Authority) issued their Autumn 2022 joint risk report. Key messages relating to the insurance sector in the report include the following. <ul style="list-style-type: none"> ➤ Second-round effects could emerge in the insurance sector via exposures to sectors that are highly exposed to the current crisis. Insurers hold a significant amount of assets issued by banks that are assumed to be more vulnerable to developments in the current crisis. ➤ Insurers are affected by inflation both in terms of assets and liabilities, and inflation has typically negative net effects for the non-life segment. Regarding the liability side, claims inflation is particularly important for insurers.

				<ul style="list-style-type: none"> ➤ Cyber-related claims are increasing alongside a growth in the frequency and sophistication of cyberattacks across financial sectors. Cyber insurers are strengthening the relevant wording to protect themselves.
Americas	-	-	-	-
Asia Pacific	9	Monetary Authority of Singapore (MAS)	30 September 2022	<ul style="list-style-type: none"> ■ MAS updated its supervisory notice on enterprise risk management (ERM) for insurers. Major guidelines added to the notice include the following. <ul style="list-style-type: none"> ➤ An insurer must establish liquidity risk management processes as part of its ORSA which include a contingency funding plan to meet its liquidity needs. ➤ In carrying out continuity analysis, an insurer must conduct stress testing under various scenarios, including stress scenarios that (i) assess the resilience of the insurer’s balance sheet against macroeconomic stressors and (ii) assess the effect of stress events on material counterparty exposures.
	10	Australian Prudential Regulation Authority (APRA)	12 September 2022	<ul style="list-style-type: none"> ■ APRA expressed its approach to modernising prudential regulation architecture, with the aim of building a digital framework that will be easier for the industry to understand and follow and easier for APRA to supervise and maintain. The initiative comprises the following three pillars. <ul style="list-style-type: none"> ➤ Better regulation: Improve the design of the prudential regulation framework to ensure that prudential standards and guidance are easier to navigate, understand and implement. ➤ Digital first: Explore how to make use of Suptech and Regtech to support better regulation. ➤ New risk, new rules: Develop APRA’s approach to the regulation of new risks and new business models on the prudential perimeter. ■ More detailed plans will be published in 2023.

Sources:

1. IOSCO 'IOSCO encourages standard-setters' work on assurance of sustainability-related corporate reporting'
2. EIOPA 'EIOPA calls for better value for money in bancassurance in warning to banks and insurers'
3. EIOPA 'Strengthening the resilience and sustainability of the insurance and pensions sectors: EIOPA sets out its strategy for 2023 – 2026'
4. FCA 'Financial watchdog warns insurers to protect customers' wellbeing during cost of living squeeze'
5. ESRB 'ESRB issues a warning about risks to EU financial stability'
6. EIOPA 'Supervisory statement on the management of non-affirmative cyber exposures'
7. EIOPA 'Supervisory statement on exclusions in insurance products related to risks arising from systemic events'
8. EIOPA 'Joint Committee Report on risks and vulnerabilities in the EU financial system - Autumn 2022'
9. MAS 'Notice 126 Enterprise Risk Management ("ERM") for Insurers'
10. APRA 'APRA outlines plans to modernise the prudential architecture'

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