



Regulatory developments in the global insurance sector

Vol. 38 (August to September 2023)



Executive summary¹

Region	No	Organisation(s)	Date	Regulatory developments
Global	-	-	-	-
Europe	1	Switzerland Financial Markets Supervisory Authority (FINMA)	23 August 2023	<ul style="list-style-type: none"> ■ The FINMA reiterated its expectations of insurers to provide more realistic information on the benefits that policyholders could receive when selling unit-linked and traditional life insurance policies. ■ Life insurers are required to calculate future benefits that policyholders could receive using three scenarios, i.e., favourable, unfavourable and average scenarios, (Sample Calculations) and present the calculations to customers. According to the FINMA's survey, however, more than 90% of the Sample Calculations examined by the FINMA showed too optimistic calculation results.
	2	Switzerland Financial Markets Supervisory Authority (FINMA)	21 August 2023	<ul style="list-style-type: none"> ■ The FINMA published guidance on insurance intermediation that sets out actions that insurance intermediaries will need to take before the revised Insurance Supervision Act and ordinance will become effective in January 2024. These actions will include the following. <ul style="list-style-type: none"> ➤ Insurance intermediaries must clarify whether their activity constitutes insurance intermediation and whether their activity is performed on a tied (i.e., intermediaries that have a fiduciary relationship with an insurer) or untied (i.e., intermediaries that have a fiduciary relationship with their clients and act in their interest) basis by the end of 2023. ➤ Insurance intermediaries must fulfil more stringent requirements as of 1 January 2024, which include: (i) providing a basic information sheet to policyholders when recommending qualified life insurance policy, (ii) making appropriate organisational arrangements to avoid conflicts of interest in their intermediary activities and (iii) having professional indemnity insurance.
	3	European Commission (EC)	31 July 2023	<ul style="list-style-type: none"> ■ The EC adopted the European Sustainability Reporting Standards (ESRS). The ESRS is a delegated regulation that stipulates disclosure requirements under the Corporate Sustainability Reporting Directive (CSRD). The delegated act applies from January 2024 for large companies with 500 or more employees. For other categories of companies, its application will be phased in. ■ The structure of the ESRS is as follows. <ul style="list-style-type: none"> ➤ Cross-cutting standards, including General Requirements that set out general requirements for

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

				<p>disclosures of sustainability-related information</p> <ul style="list-style-type: none"> ➤ Standards on environmental matters (i.e., climate change, pollution, water and marine resources, biodiversity and ecosystems, and resource use and circular economy) ➤ Standards on social matters (i.e., own workforce, workers in the value chain, affected communities and consumers and end-users) ➤ Standards on governance matters (i.e., business conduct)
	4	U.K. Prudential Regulation Authority (PRA)	31 July 2023	<ul style="list-style-type: none"> ■ The PRA published its approach to insurance supervision, in which the PRA expresses its supervisory expectations on major risk areas, etc. These expectations include the following. <ul style="list-style-type: none"> ➤ Management and governance: The board should articulate a culture of risk awareness and ethical behaviour and embed this culture in the organisation. ➤ Board and senior management: Insurers should have in place sufficient controls to minimise incentives for excessive risk-taking by management and staff. ➤ Operational resilience: Insurers should have clear lines of accountability for their operational resilience.
	5	European Commission (EC)	25 July 2023	<ul style="list-style-type: none"> ■ EC adopted a non-comprehensive list of essential services for the 11 sectors identified by the Critical Entities Resilience Directive (CER) that became effective on 16 January 2023. Essential services are defined as a service which is crucial for the maintenance of vital societal functions, economic activities, public health and safety, or the environment. ■ Essential services identified include the following. <ul style="list-style-type: none"> ➤ Energy sector: Electricity production and energy storage ➤ Banking sector: Taking deposits and lending ➤ Financial market infrastructure sector: Operation of trading venues and clearing systems
Americas	-	-	-	-
Asia Pacific	6	Australian Prudential Regulation Authority (APRA)	29 August 2023	<ul style="list-style-type: none"> ■ The APRA released its 2023-24 Corporate Plan. The outline of the plan is as follows. <ul style="list-style-type: none"> ➤ The APRA's key priority areas: <ul style="list-style-type: none"> • Responding to financial system-wide risks by enhancing cross-industry stress testing frameworks and using macroprudential tools

			<ul style="list-style-type: none"> • Focusing on operational resilience, including cyber resilience, crisis management, and operational risk management • Embedding climate risks in the APRA’s supervisory approach <p>➤ Insurance sector-specific priorities:</p> <ul style="list-style-type: none"> • Addressing challenges in the reinsurance market for general insurers by reviewing prudential requirements • Focusing on the sustainability of individual disability income insurance policies offered by life insurers • Intensifying focus on operational resilience for private health insurers
7	Australian Securities & Investments Commission (ASIC)	16 August 2023	<p>■ The ASIC called on general insurers to improve their claims handling practices for home insurance claims based on the results from its assessments conducted in 2022 for six large insurers. Areas for improvement specified by the ASIC include the following.</p> <p>➤ Communications: Insurers must communicate in a clear and transparent manner to prevent confusion with consumers.</p> <p>➤ Handling of complaints: Insurers must adequately identify and respond to expressions of dissatisfaction.</p> <p>➤ Treatment of vulnerability: Insurers must recognise consumers experiencing vulnerability and tailor their services to vulnerable customers.</p>
8	Insurance Regulatory and Development Authority of India (IRDAI)	10 August 2023	<p>■ The IRDAI issued a circular to all insurers notifying them that it will carry out its first Quantitative Impact Study (QIS1) with regard to the Indian Risk Based Capital (Ind-RBC).</p> <p>■ Insurers were requested to perform their assessments in accordance with technical guidance and report the results to the IRDAI by the end of November 2023.</p>
9	Reserve Bank of New Zealand (RBNZ)	8 August 2023	<p>■ The RBNZ published the results of its first life insurance sector stress test (LIIST) conducted for the five largest life insurers.</p> <p>➤ Objectives: To measure the resilience of life insurers to severe but plausible shock scenarios</p> <p>➤ Scenarios: The stress scenarios consisted of a combination of economic shocks (i.e., worsening economic conditions with high inflation and rising interest rates) and insurance shocks (including</p>

				<p>a new pandemic as well as higher mortality and morbidity rates)</p> <ul style="list-style-type: none"> ➤ Results: All insurers remained solvent. However, some insurers' solvency margin fell outside of their own risk appetite.
10	Australian Prudential Regulation Authority (APRA)	3 August 2023	<ul style="list-style-type: none"> ■ The APRA released a letter on the use of alternative reinsurance arrangements, including catastrophe bonds and other types of insurance linked securities (ILS), to general insurers. The APRA's opinions expressed in the letter include the following. <ul style="list-style-type: none"> ➤ The APRA's regulation permits the use of catastrophe bonds and other forms of ILS which may not have a reinstatement. The insurer must demonstrate to the APRA its reasoning for using such bonds and securities to get approval. ➤ Any ILS options will be carefully assessed by the APRA. Insurers are encouraged to engage with the APRA prior to submitting a formal approval request. ➤ The APRA intends to review its reinsurance regulation towards the first half of 2024. 	

Sources:

1. FINMA 'FINMA examines life insurers' sample calculations'
2. FINMA 'FINMA guidance on insurance intermediation: important next steps'
3. EC 'The Commission adopts the European Sustainability Reporting Standards'
4. PRA 'PRA's approach to supervision of the banking and insurance sectors'
5. EC 'Enhancing EU resilience: A step forward to identify critical entities for key sectors'
6. APRA 'APRA responds to emerging risks in 2023-24 Corporate Plan'
7. ASIC 'ASIC review finds insurers can and should improve claims handling'
8. IRDAI 'Technical Guidance in respect of Indian Risk Based Capital Framework – Quantitative Impact Study-1'
9. RBNZ 'First RBNZ life insurance stress test shows industry well placed to withstand severe shocks'
10. APRA 'APRA releases reminder on the use of alternative reinsurance arrangements'

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