



Regulatory developments in the global insurance sector

Vol. 42 (December 2023 to January 2024)



Executive summary¹

Region	No	Organisation(s)	Date	Regulatory developments
Global	1	Financial Stability Board (FSB)	15 December 2023	<ul style="list-style-type: none"> ■ The FSB released its 2023 Resolution Report. Descriptions related to the insurance sector include the following. <ul style="list-style-type: none"> ➤ FSB member authorities reported for the first time in 2023 insurers subject to the resolution planning standards of the FSB Key Attributes (KAs). However, the FSB decided not to publish the list of insurers subject to the resolution planning standards of the KAs as not all jurisdictions were able to report information that would have been required to compile a comprehensive list of global systemically important insurers (G-SIIs). ➤ The FSB collected examples of methodologies used by jurisdictions to assess the critical functions of insurers. It turned out that a broad interpretation of the definition of critical functions is used, having regard to the economic and social function of insurers.
Europe	2	European Insurance and Occupational Pensions Authority (EIOPA)	15 December 2023	<ul style="list-style-type: none"> ■ The EIOPA published a draft of the methodology for setting value-for-money benchmarks for unit-lined and hybrid insurance products. The draft proposes a three-step approach to develop benchmarks to assist (i) insurance supervisors in identifying products with higher value for money risks and (ii) product manufacturers in identifying comparable offers in the market to determine if their products offer value. <ul style="list-style-type: none"> ➤ Step 1 - Defining the product clusters: Based on ‘essential features’, such as the recommended holding period and the risk class, unit-lined and hybrid products are possibly clustered into 72 categories. ➤ Step 2 - Defining the indicators around which benchmarks will be developed: Value-for-money indicators to be used for benchmarking include the following. <ul style="list-style-type: none"> • For the life benefit component: surrender value/premiums paid • For the costs component: total costs paid/premiums paid • For the death benefit component: biometric risk benefit/premiums paid ➤ Step 3 - Data collection and calibration of benchmarks

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

3	European Insurance and Occupational Pensions Authority (EIOPA)	13 December 2023	<ul style="list-style-type: none"> ■ The EIOPA published a consultation paper on the prudential treatment of sustainability risks. The paper considers whether a dedicated prudential treatment is necessary in terms of the following three areas on an evidence basis. <ul style="list-style-type: none"> ➤ Market risks of assets and exposures to transition risks ➤ Non-life underwriting risks and climate change adaptation ➤ Social risks and impacts from a prudential perspective ■ The EIOPA considers it appropriate to develop policy options regarding a dedicated prudential treatment of fossil fuel-related stocks and bonds, among the abovementioned three areas, to mitigate corresponding loss potential.
4	European Insurance and Occupational Pensions Authority (EIOPA)	12 December 2023	<ul style="list-style-type: none"> ■ The EIOPA published its draft opinion on sustainability claims and greenwashing in the insurance and pensions sectors for public consultation. The opinion sets out four principles related to (i) accurate sustainability claims, (ii) substantiated sustainability claims and (iii) accessible sustainability claims, which include the following. <ul style="list-style-type: none"> ➤ Sustainability claims made by an insurer should be accurate, precise and consistent with the insurer’s overall profile and business model or the profile of its product(s). ➤ Sustainability claims should be substantiated with clear reasoning and facts. ➤ Sustainability claims and their substantiation should be accessible by the targeted stakeholders.
5	European Insurance and Occupational Pensions Authority (EIOPA)	11 December 2023	<ul style="list-style-type: none"> ■ The EIOPA published its December 2023 Financial Stability Report. Key messages of the report include the following. <ul style="list-style-type: none"> ➤ Insurers are impacted by higher interest rates in multiple ways. For example, in the longer term, the impact may be positive as funds can be invested with higher returns. In the meantime, however, insurers have to digest substantial losses on their existing fixed income investments. ➤ Inflation can lead to increased costs for claims as well as for the operations of insurers. ➤ Liquidity risks have come into the focus of insurance supervisors, although only a limited number of insurers seem to be impacted at this stage.
6	U.K. Prudential Regulation Authority (PRA)	8 December 2023	<ul style="list-style-type: none"> ■ The PRA issued a statement related to Solvency II reforms in the U.K. The statement describes that the following formula on the calculation of risk margin will become effective on 31 December 2023.

			<ul style="list-style-type: none"> ➤ $Risk\ Margin = CoC \times \sum_{t \geq 0} \frac{SCR(t) \times \max(\lambda^t, \lambda_{floor})}{(1+r(t+1))^{t+1}}$ • Risk tapering factor λ: 0.9 for life insurance and 1.0 for general insurance obligations • Floor of the risk tapering factor λ_{floor}: 0.25 • CoC (Cost of Capital): 4%
7	U.K. Prudential Regulation Authority (PRA)	8 December 2023	<ul style="list-style-type: none"> ■ The PRA issued a letter to general insurers regarding the findings from its thematic review of expected underwriting profit allowed for in internal models. Key messages of the letter include the following. <ul style="list-style-type: none"> ➤ In recent years, general insurers have been assuming increasing underwriting profits within their approved internal models, which can have the effect of reducing the calculated Solvency Capital Requirement (SCR) without justification. ➤ Only a few general insurers performed sufficient sensitivity or scenario testing to assess the impact on the SCR, which resulted from such optimistic assumptions. ➤ Although the risk function had identified a degree of optimism in insurers' business plans, that information had not been considered in model validation.
8	European Supervisory Authorities (ESAs)	8 December 2023	<ul style="list-style-type: none"> ■ The ESAs, which are comprised of the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA), released their second batch of draft regulations associated with the Digital Operational Resilience Act (DORA) for public consultation. The consultation package includes the following. <ul style="list-style-type: none"> ➤ Draft regulatory technical standards (RTS) and implementing technical standards (ITS) on content, timelines and templates on incident reporting ➤ Draft RTS on threat-led penetration testing (TLPT) ➤ Draft RTS on subcontracting of critical or important functions ■ Regarding TLPT for the insurance sector, it is proposed that TLPT be required for large insurers that meet certain thresholds.
9	U.K. Prudential Regulation Authority (PRA)	7 December 2023	<ul style="list-style-type: none"> ■ The PRA published a consultation paper titled 'Operational resilience: Critical third parties to the UK financial sector'. The HMT may designate a third party that provides services to one or more authorised financial institutions, etc., as a Critical Third Party (CTP). ■ Proposals made in the consultation paper include the following.

				<ul style="list-style-type: none"> ➤ Potential CTPs are identified based on the following three criteria: (i) materiality of services provided by the third party, (ii) concentration of the services provided by the third party and (iii) other drivers of potential systemic impact. ➤ A set of six Fundamental Rules related to integrity, due skill and care, effective risk management, etc., that CTPs will be required to comply with are developed. ➤ Eight CTP Operational Risk and Resilience Requirements on, e.g., governance, risk management and technology and cyber resilience are developed.
Americas	10	U.S. Financial Stability Oversight Council (FSOC)	14 December 2023	<ul style="list-style-type: none"> ■ The FSOC released its 2023 annual report on financial stability risks in the U.S. The report assesses vulnerabilities in the financial sector in terms of (i) financial risks, (ii) financial institutions, as well as (iii) financial market structures, operational risks and technological risks. Vulnerabilities identified and the FSOC’s recommendations related to these identified vulnerabilities include the following. <ul style="list-style-type: none"> ➤ Financial risks: Regulators should continue to coordinate to identify, prioritise and procure data necessary for monitoring climate-related financial risks. ➤ Financial institutions: Trends in the life and health insurance sector, such as the involvement of large asset management companies and private equity firms, increasing investments in illiquid assets and reliance on non-traditional funding sources may raise concerns related to (i) growth of private credit and alternative asset investments to support insurance liabilities, (ii) increase in proportion of lower credit quality in corporate bond portfolios and (iii) growth of the use of offshore reinsurance. ➤ Technological risks: Financial institutions, market participants and regulators/supervisors should further build expertise and capacity to monitor AI innovation and usage and identify emerging risks.
	11	U.S. National Association of Insurance Commissioners (NAIC)	4 December 2023	<ul style="list-style-type: none"> ■ The NAIC adopted the Model Bulletin on the Use of Artificial Intelligence Systems by Insurers. The model bulletin is comprised of the following four sections: (i) Introduction, (ii) Definitions, (iii) Regulatory Guidance and Expectations and (iv) Regulatory Oversight and Examination Considerations. ■ Regulatory Guidance and Expectations include the following. <ul style="list-style-type: none"> ➤ General Guidelines: The Artificial Intelligence System (AIS) Program should be designed to mitigate the risk that the Insurer’s use of an AI System will result in Adverse Consumer Outcomes. ➤ Governance: The AIS Program should include a governance framework for the oversight of AISs

				<p>used by the Insurer.</p> <ul style="list-style-type: none"> ➤ Risk Management and Internal Controls: The AIS Program should document the Insurer’s risk identification, mitigation, and management framework as well as internal controls for AISs. ➤ Third-Party AISs and Data: Each AIS Program should address the Insurer’s process for acquiring, using, or relying on (i) third-party data to develop AISs and (ii) AISs developed by a third party.
Asia Pacific	-	-	-	-

Sources:

1. FSB '2023 Resolution Report: "Applying lessons learnt"'
2. EIOPA 'EIOPA consults on its methodology for setting value-for-money benchmarks'
3. EIOPA 'EIOPA consults on the prudential treatment of sustainability risks'
4. EIOPA 'EIOPA seeks feedback on its proposed approach to tackle greenwashing in the insurance and occupational pension sectors'
5. EIOPA 'EIOPA's financial stability report weighs up insurers' and pension funds' challenges amid shifting macro landscape'
6. PRA 'Solvency II Review – considerations for year-end 2023'
7. EIOPA 'ESAs launch joint consultation on second batch of policy mandates under the Digital Operational Resilience Act'
8. PRA 'CP26/23 - Operational resilience: Critical third parties to the UK financial sector'
9. FSOC 'Financial Stability Oversight Council Releases 2023 Annual Report'
10. NAIC 'NAIC Members Approve Model Bulletin on Use of AI by Insurers'

Contact:

Shinya Kobayashi

Managing Director

Financial Services

Deloitte Tohmatsu Risk Advisory LLC

Deloitte.

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