Regulatory developments in the global insurance sector

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Executive summary[1]

Region	No	Organisation(s)	Date	Regulatory developments
Global	1	Network for Greening the Financial System (NGFS)	17 April 2024	■ **The NGFS published three reports on transition planning**, i.e., (i) Tailoring Transition Plans: Considerations for emerging market and developing economies (EMDEs), (ii) Connecting Transition Plans: Financial and non-financial firms and (iii) Credible Transition Plans: The microprudential perspective, together with a cover note. ■ Key observations (recommendations) presented in these reports include the following. ➢ There is a need to develop consistent international guidance for transition planning and frameworks for the disclosure of transition plans. ➢ Economy-wide incentives to undertake transition planning and to disclose transition plans could help to broaden adoption and to close information gaps. ➢ While transition plans are primarily strategy focused, risk management is an integral part of transition planning. ➢ Transition planning and plans should integrate transition and physical risks and consider nature-related risks.
Europe	2	U.K. Prudential Regulation Authority (PRA)	23 April 2024	■ **The PRA published the results from its thematic review of banks' private equity (PE)-related financing activities**. The objective of the review was to assess the adequacy of banks' risk management practices associated with 'non-traditional' PE-related financing activities. The PRA's key recommendations based on the findings from the review include the following. ➢ Banks should systematically flag all transaction and exposure data relating to the PE sector and should be able to calculate and monitor exposures to the overall PE sector. ➢ Credit due diligence procedures and management information processes should recognise and measure the presence of overlapping credit exposures, etc., across all PE-related activities where performance and recovery values of such amounts are interlinked. ➢ Bank should conduct routine stress testing of exposures to the PE sector as a whole, and this stress testing should be tailored to the idiosyncratic risk profile of the different products and structures.

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

	3	European Supervisory Authorities (ESAs)	18 April 2024	■ **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), **published draft regulatory technical standards on the joint examination teams under the Digital Operational Resilience Act (DORA)** for consultation. Key requirements proposed in the consultation document include the following. ➢ The joint examination team is established by the Lead Overseer to carry out the oversight activities concerning the assigned critical ICT third-party service provider. ➢ The tasks of the joint examination teams include (i) assisting the Lead Overseer in the preparation and drafting of the individual annual oversight plan, (ii) conducting general investigations on and inspections of the critical ICT third-party service providers and (iii) assessing the remediation plan and the progress reports developed by the critical ICT third-party service provider.
	4	European Insurance and Occupational Pensions Authority (EIOPA)	15 April 2024	■ **The EIOPA published a report that analyses insurers' implementation of IFRS 17 in the EU and the synergies and differences in the calculation of insurance liabilities with the Solvency II framework**. Major findings related to the synergies and differences with Solvency II include the following. ➢ Scope: Only 6.9% of Solvency II technical provisions fall out of the scope of IFRS 17. ➢ Valuation: For life insurance businesses, IFRS 17 insurance liabilities, including the CSM, are about 5% higher than Solvency II technical provisions. For non-life insurance businesses, IFRS 17 insurance fulfilment cashflows are 9.5% higher on average than Solvency II technical provisions. ➢ Discount rates: 42% of the respondents use the same or almost the same discount rate between Solvency II and IFRS 17. For the remaining 58%, IFRS 17 discount rate is higher than Solvency II one in most of the cases.
	5	U.K. Prudential Regulation Authority (PRA)	11 April 2024	■ **The PRA published its business plan for 2024/25**. Key insurance-related items include the following. ➢ **Insurance stress testing**: The next insurance stress testing will take place in 2025. The 2025 test for life insurers will for the first time include an exploratory scenario to assess exposure to the recapture of funded reinsurance contracts. ➢ **Funded reinsurance**: The PRA will continue to pay close attention to the use of funded reinsurance transactions in the UK life insurance market, focusing on collaterals used in these transactions and individual/sectoral concentrated exposures to counterparties. ➢ **Liquidity risk**: The PRA will develop liquidity reporting requirements for insurers most exposed to liquidity risk.

	6	European Insurance and Occupational Pensions Authority (EIOPA)	4 April 2024	■ **The EIOPA finalised its supervisory statement on the supervision of reinsurance concluded with third-country (re)insurers**. Supervisory expectations expressed in the supervisory statement include the following. ➢ Supervisors should engage in an on-going dialogue with the insurer that intends to transfer risks through reinsurance. ➢ Supervisors should assess the insurer's risk management and internal control systems in cases where the insurer intends to enter into reinsurance arrangements with non-equivalent third-country reinsurers. ➢ Supervisors should assess whether these reinsurance agreements are in compliance with the relevant requirements from the Solvency II Delegated Regulation.
	7	European Insurance and Occupational Pensions Authority (EIOPA)	3 April 2024	■ **The EIOPA published a consultation paper on re-assessing natural catastrophe risks in the standard formula under Solvency II**. ■ The EIOPA proposed to introduce/update risk factors for natural catastrophe risk categories, i.e., earthquake, flood, windstorm and subsidence, for certain jurisdictions. The EIOPA also listed the following three perils that would need to be monitored in the context of capital charges in the standard formula: (i) wildfire, (ii) coastal flood and (iii) drought.
	8	European Insurance and Occupational Pensions Authority (EIOPA)	2 April 2024	■ **The EIOPA launched its 2024 stress testing exercise**, focusing on the economic consequences of a re-intensification or prolongation of geopolitical tensions. Key elements of the stress testing exercise include the following. ➢ Scope: 48 large insurance groups from 20 jurisdictions ➢ Scenario: Geopolitical tensions will re-intensify or prolong, which will lead to a resurgence of widespread supply-chain disruptions, leading to sluggish growth and reigniting inflationary pressures. ➢ Timeline: Participating insurers will calculate their results by mid-August. The EIOPA will review the results until the end of October. A final report will be published in December 2024.
Americas	9	Canada Office of the Superintendent of Financial Institutions (OSFI)	11 April 2024	■ **The OSFI issued an updated draft Standardised Climate Scenario Exercise (SCSE) methodology**. The objective of the SCSE is to encourage the building of financial institutions' capacity to assess the impact of climate-related catastrophic events, etc. ■ The SCSE is supposed to be implemented using a combination of two approaches: (i) a top-down approach where the OSFI defines and develops the methodology, scenarios, parameters, etc., and (ii)

				a bottom-up approach where financial institutions identify exposures, classify them into relevant segments, etc. ■ The scope of the SCSE is supposed to be as follows. ➢ Impact of climate transition on market and credit risks for commercial exposures ➢ Assessment of transition and physical risks on real estate exposures
Asia Pacific	-	-	-	-

Sources:

1. NGFS ‘NGFS publishes a package of reports relating to Transition Plans’
2. PRA ‘Letter from Rebecca Jackson and Charlotte Gerken: Thematic review of private equity related financing activities’
3. EIOPA ‘Consultation on the draft Regulatory Technical Standards on the conduct of oversight activities in relation to the joint examination teams under DORA’
4. EIOPA ‘Report on the implementation of IFRS 17 - Insurance contracts’
5. PRA ‘Prudential Regulation Authority Business Plan 2024/25’
6. EIOPA ‘Supervisory Statement on the supervision of reinsurance concluded with third-country (re)insurance undertakings’
7. EIOPA ‘EIOPA consults on natural catastrophe risk reassessments in the standard formula’
8. EIOPA ‘EIOPA stress tests European insurers’ resilience with a scenario of escalating geopolitical tensions’
9. OSFI ‘OSFI announces second phase of the Standardized Climate Scenario Exercise consultation’

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