Deloitte.
デロイト トーマツ

Regulatory developments in the global insurance sector

Vol. 47 (May to June 2024)

Disclaimer: Any opinions expressed in this paper are those of the authors, and not the official opinions of the Deloitte Tohmatsu Group.

MAKING AN IMPACT THAT MATTERS since 1845

Executive summary[1]

Region	No	Organisation(s)	Date	Regulatory developments
Global	1	Basel Committee on Banking Supervision (BCBS)	16 May 2024	■ **The BCBS published a report titled 'Digitalisation of finance' that considers the implications of the on-going digitalisation of finance on banks and supervision**. The report analysed potential risks and vulnerabilities associated with the digitalisation of finance, which include the following. ➢ Strategic risks: Banks may (i) reduce their market share and revenues as a result of increased competition with non-bank institutions that offer financial services bundled with other services, (ii) lose control over partnership firms, (iii) lose ownership of their customer relationships and (iv) end up providing only a limited set of services to non-banks. ➢ Reputational risks: Banks may face reputational risks due to, e.g., (i) operational failures to comply with relevant laws and regulations, (ii) use of AI/ML models that may produce unfair or discriminatory outputs and (iii) issues with non-bank partners or service providers. ➢ Operational risks: Digitalisation may lead to an increase in model risks, technology risks, cyber risks, legal uncertainty, compliance risks, fraud-related risks and third-party risks.
	2	International Monetary Fund (IMF)	13 May 2024	■ **The IMF conducted its financial sector assessment programme (FSAP) for Japan and published the results**. As part of the FSAP, observance of insurance regulations and supervision in Japan with the Insurance Core Principles, the global standards developed by the International Association of Insurance Supervisors (IAIS), was assessed. ■ Key findings from the insurance sector assessment include the following. ➢ Significant gaps in the current framework for regulation and supervision were identified. Six ICPs out of 24 were assessed as Partly Observed. ➢ The FSA's approach to insurance supervision is largely reactive partly because of a lack of resources. The regular risk assessment on individual insurers is not undertaken as a part of a supervisory cycle. On-site inspections have not been undertaken for some years. ➢ The requirements on control functions need to be strengthened and suitability (fit and proper) requirements needed to be extended.

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

Europe	3	European Securities and Markets Authority (ESMA)	30 May 2024	■ **The ESMA issued a statement on the use of artificial intelligence (AI) technologies** when financial institutions provide investment services to retail clients. The objective of the statement is to ensure compliance with MiFID II obligations and safeguard investors' interests from AI-driven solutions. ■ Guidance provided in the statement include the following. ➢ Client's best interest and information to clients: Investment firms using AI for client interactions should transparently disclose to the clients the use of such technology. ➢ Governance and risk management: The firm's management body should have an appropriate understanding of how AI technologies are applied and used within their firm and should ensure appropriate oversight of these technologies. ➢ Conduct of business: Investment firms should implement rigorous quality assurance processes for their AI tools.
	4	U.K. Prudential Regulation Authority (PRA)	23 May 2024	■ **The PRA updated its Statement of Policy (SoP) that sets out its supervisory approach to the authorisation and supervision of third-country insurance branches**. The SoP provides certain criteria that need to be met by third-country insurance branches, which include the following. ➢ U.K. policyholder protection: U.K. branch insurance policyholders are given the appropriate priority in an insolvency and there is no discrimination against U.K. branch policyholders in the event of a winding up. ➢ Scale of U.K. branch activity: The PRA expects third-country branches to have under 500 million GBP of insurance liabilities covered by the Financial Services Compensation Scheme (FSCS). ➢ Reinsurance: The PRA will assess the level of intra-group reinsurance ceded by the third-country branch insurer, a potential impact of the aggregate reinsurance cessions on supervisability and the concentration risks arising from outwards reinsurance arrangements.
	5	European Insurance and Occupational Pensions Authority (EIOPA)	14 May 2024	■ **The EIOPA published its May 2024 Insurance Risk Dashboard**. Key observations presented include the following. ➢ Market risks remain at a high level. Volatility in bond markets is decreasing but remains high. Real estate prices are decreasing mainly driven by commercial real estate. ➢ Macro risks are at a medium level. The low growth environment remains the main concern, and it could have adverse effects on insurers through, e.g., lower growth in premiums and higher claims.

Americas	6	New York State Department of Financial Services (NYDFS)	23 May 2024	■ **The NYDFS issued a circular letter that encourages property and casualty insurers to offer loss mitigation tools and services to policyholders for free or at a reduced fee**. These tools and services include smart water monitors and shutoff devices and electrical fire sensors and monitors. The circular clarifies some technical issues related to offerings of such tools and services, including the following. ➢ If the tool or service is $25 or less in market value, the insurer may offer it for free or at a reduced fee without this being specified in the insurance policy. ➢ If the tool or service exceeds $25, it must be specified in the insurance policy, have a legitimate nexus to the insurance and be necessarily or properly incidental to the insurer's insurance business.
	7	Office of the Superintendent of Financial Institutions (OSFI)	22 May 2024	■ **The OSFI published its annual risk outlook for 2024 to 2025**. The outlook sets forth the OSFI's supervisory priorities. Those for the insurance sector include the following. ➢ Continued focus on prudence and conservatism in capital management practices. ➢ Intensifying focus on operational resilience with activities targeted towards cyber resilience and third-party supplier risks for critical outsourced operations. ➢ Assessment of risk governance practices in the oversight of business risks.
Asia Pacific	8	Monetary Authority of Singapore (MAS)	30 May 2024	■ **The MAS issued an updated set of guidelines that ensure fair dealing outcomes for customers of financial institutions**. Key updates made include expanding its scope from investment products to all types of financial products and services and to add examples of good/poor practices. ■ The guidelines set forth five outcomes (principles) for financial institutions in terms of fair dealings for customers, including the following. ➢ Customers have confidence that they are dealing with financial institutions where fair dealing is central to their corporate culture. ➢ Financial institutions offer products and services that are suitable for their target customer segments. ➢ Financial institutions handle customer complaints in an independent, effective and prompt manner.
	9	Monetary Authority of	29 May 2024	■ **The MAS conducted a thematic review on the data governance and data management framework of selected banks with a particular focus on data quality and published its findings from the review**

		Singapore (MAS)		**together with its supervisory expectations on data governance**. ■ Supervisory expectations expressed include the following. ➢ Board and senior management (BSM) oversight: BSM should exercise sufficient oversight over the processes needed to achieve effective risk data aggregation and reporting. ➢ Data management organisation: Banks should ensure clarity of roles within the data management operating model to oversee proper implementation of their data management framework across the organisation. ➢ Data quality management and controls: Banks should have an established data quality management framework and processes to provide assurances that their data is of acceptable quality and fit-for-purpose throughout the entire data lifecycle.
	10	Insurance Regulatory and Development Authority of India (IRDAI)	22 May 2024	■ **The IRDAI issued a master circular on corporate governance for insurers** that provides detailed requirements for the Regulations of Corporate Governance for Insurers adopted in March 2024. The master circular addresses (i) Board of Directors, (ii) Conflict of Interest, (iii) Committees of the Board, (iv) Key Management Persons, (v) Chief Compliance Officer, (vi) External Audit, (vii) Disclosure Requirements, (viii) Remuneration, (ix) Whistle Blower Policy, etc. ■ The circular states that insurers need to establish the following Committees of the Board: (i) Audit Committee, (ii) Investment Committee, (iii) Risk Management Committee, (iv) Policyholder Protection, Grievance Redressal and Claims Monitoring Committee, (v) Nomination and Remuneration Committee, (vi) Corporate Social Responsibility Committee and (vii) With-Profits Committee (only for life insurers).

Sources:

1. BCBS ‘Digitalisation of finance’
2. IMF ‘Japan: Financial Sector Assessment Program-Financial System Stability Assessment’
3. ESMA ‘ESMA provides guidance to firms using artificial intelligence in investment services’
4. PRA ‘SoP – The PRA’s approach to the authorisation and supervision of insurance branches’
5. EIOPA ‘EIOPA Insurance Risk Dashboard flags market risks for insurers amid market volatility and declining real estate prices’
6. NYFSD ‘Superintendent Adrienne A. Harris Issues Guidance Encouraging Homeowners’ Insurers to Offer Free or Discounted Loss Mitigation Tools and Services’
7. OSFI ‘OSFI’s Annual Risk Outlook – Fiscal Year 2024-2025’
8. MAS ‘MAS Expands Application of Fair Dealing Guidelines to All Financial Institutions and All Products and Services’
9. MAS ‘Data Governance and Management Practices’
10. IRDAI ‘Master Circular on Corporate Governance for Insurers, 2024’

Contact:

Shinya Kobayashi
Managing Director
Financial Services
Deloitte Tohmatsu Risk Advisory LLC