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Regulatory developments in the global insurance sector

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Executive summary[1]

Region	No	Organisation(s)	Date	Regulatory developments
Global	1	International Association of Insurance Supervisors (IAIS)	27 June 2024	■ **The IAIS clarified the next steps on implementation of the Insurance Capital Standard (ICS)**, which is supposed to be adopted in December 2024. Major steps proposed include the following. ➢ The IAIS will conduct an implementation assessment of the ICS in the coming years. In 2025, the IAIS will begin developing a detailed ICS implementation assessment methodology, leveraging the IAIS's general principles and methodologies for assessing its standards. ➢ In 2026, the IAIS will coordinate a baseline self-assessment by IAIS members of their implementation of the ICS. ➢ In 2027, the IAIS will then aim to start the first in-depth targeted jurisdictional assessments of the ICS's implementation.
	2	International Association of Insurance Supervisors (IAIS)	25 June 2024	■ **The IAIS published a draft of the application paper on how to achieve fair treatment for diverse consumers**. The draft application paper provides recommendations on the following themes: ➢ (i) embedding fair treatment of diverse consumers into the business culture ➢ (ii) ensuring the fair treatment of diverse consumers in product designs ➢ (iii) securing appropriate sales and distribution to diverse consumers ➢ (iv) after-sale servicing, product monitoring and review
	3	International Organization of Securities Commissions (IOSCO)	3 June 2024	■ **The IOSCO published its report titled 'Leveraged Loans and Collateralised Loan Obligations (CLOs) Good Practices for Consideration'**. ■ Given the recent evolution of the leveraged loan (LL) and CLO markets, the report provides 12 good practices for the following five themes: ➢ (i) origination and refinancing based on a sound business premise ➢ (ii) EBITDA and loan documentation transparency ➢ (iii) strengthening alignment of interest from loan origination to end investors

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

				➢ (iv) addressing interests of different market participants throughout the intermediation chain ➢ (v) disclosure of information on an ongoing basis
Europe	4	European Insurance and Occupational Pensions Authority (EIOPA)	27 June 2024	■ **The EIOPA released its Financial Stability Report for the 1st half of 2024**. Key messages of the report include the following. ➢ As major long-term investors, insurers can play a significant role in supporting the transition towards a low-carbon economy. At the same time, misleading sustainability claims and the risk of greenwashing has also increased. Appropriate assessment, risk management and treatment of sustainability risks are key in ensuring insurers' viability going forward. ➢ Supervisors continue to actively monitor the cyber underwriting developments and operational risks related to digitalisation. ➢ In the reinsurance sector, a record high issuance of CAT bonds was witnessed in 2023. CAT bonds continue to be an important channel for transferring peak risks. Also, cyber reinsurance is expected to play a key role in the growth of cyber insurance.
	5	U.K. Financial Conduct Authority (FCA)	26 June 2024	■ **The FCA published the results from its review of 20 larger insurance firms**, including general insurers, life insurers and insurance intermediaries, **regarding whether they monitor the outcomes that their products and services provide to their customers in accordance with their Consumer Duty**. Good practices found through the review include the following. ➢ Design of monitoring approaches: One insurer first identified possible good and poor outcomes across all business areas and then considered the type and significance of harm if the poor outcomes materialised. ➢ Types of data: Some insurers increased emphasis on testing customer outcomes by better understanding customer journeys on a risk basis. ➢ Monitoring of different groups of customers: Some insurers monitor outcomes for customers with characteristics of vulnerability as a subset of data across a wide range of their overall customer outcomes monitoring metrics.
	6	European Commission (EC)	18 June 2024	■ **The EC launched a targeted consultation on the use of artificial intelligence (AI) in finance** to seek input from stakeholders. The consulted questionnaire contains three parts: (i) general questions on the development of AI; (ii) questions related to specific use cases in finance and (iii) questions on the AI Act related to the financial sector. Insurance-related questions in the 2nd part include the following. ➢ For which use case(s) are you using/considering using AI? (Examples are risk management, insurance pricing and underwriting, regulatory compliance and fraud detection.)

				➢ What is the main barrier to developing AI in your use case(s) (e.g., discrimination and opacity of the application development)? ➢ Does AI reduce or rather increase bias and discrimination in your use case(s)?
	7	European Insurance and Occupational Pensions Authority (EIOPA)	4 June 2024	■ **The EIOPA published their final report on greenwashing risks and the supervision of sustainable finance policies**, which is a response to a request received from the European Commission in May 2022. The EIOPA made nine proposals in the report, including the following. ➢ Supervisors should enhance their efforts to tackle greenwashing by, e.g., monitoring insurers' practices. ➢ Insurers should include greenwashing risk considerations as part of their internal governance structure around sustainability. ➢ A potential gap identified around non-life insurance products with sustainability features should be closed.
Americas	-	-	-	-
Asia Pacific	8	Bank Negara Malaysia (BNM)	28 June 2024	■ **The BNM issued an exposure draft on risk-based capital framework for insurers**. The draft policy document aims to achieve greater alignment with key elements of the global capital standards, such as the Insurance Capital Standard (ICS) being developed by the International Association of Insurance Supervisors (IAIS), with modifications appropriate to the Malaysian market. Once finalised, a new framework is supposed to be implemented in January 2027. ■ Under the proposed new capital framework: ➢ the capital adequacy ratio (CAR) of an insurer is computed as follows: CAR = Total capital available (TCA) / Total capital required (TCR) (the supervisor is supposed to intervene when the CAR is below 100%); ➢ TCR is calibrated at a level corresponding to VaR at 99.5% confidence level over a one-year period; and ➢ insurance liabilities are comprised of (i) central estimate liabilities and (ii) provision of risk margin for adverse deviation (PRAD).
	9	Monetary Authority of Singapore (MAS)	20 June 2024	■ **The MAS released a report titled 'Money Laundering Risk Assessment Report Singapore 2024'**. In the financial services sectors of Singapore, ML risks for direct life and composite insurers are classified as 'Lower', while ML risks for banks, payment institutions with cross-border money transfer services and fund management companies are classified as 'High', 'Medium High' and 'Medium Low', respectively.

				■ Insurance-related descriptions in the report include the following. ➢ Insurance products with single premium payments and high cash value upon surrender or complex products with returns linked to the performance of an underlying financial asset (e.g., insurance wrappers) may present ML risks. ➢ Direct life and composite insurers deal largely with retail customers and sell most of their products to individuals, which is why the insurance sector in Singapore is assessed to have lower ML vulnerability.
	10	Australian Prudential Regulation Authority (APRA)	13 June 2024	■ **The APRA finalised its prudential practice guide titled 'CPG 230 Operational Risk Management'**. The guide is to assist in the implementation of the APRA's prudential standards known as 'CPS 230 Operational Risk Management', which will become effective in July 2025. Guidelines that CPG 230 provides include the following. ➢ Risk management frameworks: Where there are material weaknesses in the management of operational risks of a financial institution, the institution is expected to hold additional capital until remediation is complete. ➢ Roles and responsibilities: A disruption to a critical operation outside of tolerance, a material operational risk incident and an entry into or material change to an agreement for material services should be reported to the APRA no later than 24 hours, 72 hours and 20 business days, respectively. ➢ Business continuity: Tolerance levels for disruptions should be set, considering maximum allowable disruption, maximum data loss, minimum level of service that needs to be restored, etc.

Sources:

1. IAIS ‘IAIS charts course on Insurance Capital Standard (ICS) implementation ahead of adoption in December 2024’
2. IAIS ‘Public consultation of Application Paper on how to achieve fair treatment for diverse consumers‘
3. IOSCO ‘IOSCO publishes Final Report on Leveraged Loans and CLOs Good Practices for Consideration’
4. EIOPA ‘Europe’s insurance and pension fund sectors stay resilient amid tense risk landscape’
5. FCA ‘Insurance multi-firm review of outcomes monitoring under the Consumer Duty’
6. EC ‘Commission seeks input from industry on the use of artificial intelligence in finance’
7. EIOPA ‘ESAs call for enhanced supervision and improved market practice on sustainability-related claims’
8. BNM ‘Exposure Draft on Risk-Based Capital Framework for Insurers and Takaful Operators’
9. MAS ‘Money Laundering National Risk Assessment’
10. APRA ‘APRA finalises cross-industry guidance on operational resilience’

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