



Regulatory developments in the global insurance sector

Vol. 49 (July to August 2024)



Executive summary¹

Region	No	Organisation(s)	Date	Regulatory developments
Global	1	Financial Stability Board (FSB)	18 July 2024	<ul style="list-style-type: none"> ■ The FSB published a report titled ‘Stocktake on Nature-related Risks: Supervisory and regulatory approaches and perspectives on financial risk’. Key messages in the report include the following. <ul style="list-style-type: none"> ➤ There is no commonly agreed international definition of nature-related financial risks, while many financial authorities use the definitions of nature-related financial risks proposed by the NGFS as a conceptual reference. ➤ Several authorities have built on the progress made on climate-related risks by incorporating nature-related risk elements into their climate-related regulatory and supervisory initiatives. ➤ Main challenges identified by authorities include the limited availability of data, challenges in developing analytical approaches and quantitative assessments as well as a lack of resources.
	2	International Association of Insurance Supervisors (IAIS)	15 July 2024	<ul style="list-style-type: none"> ■ The IAIS published two draft papers on climate risk: (i) draft application paper on public disclosure and supervisory reporting of climate risk and (ii) draft supporting material on macroprudential and group supervisory issues and climate risk. ■ The draft application paper presented several recommendations on the following: (a) development of a disclosure regime, (b) public disclosure of decision-useful climate information, (c) supervisory reporting of climate-related risks and (d) governance for and data issues and limitations in climate-related risk disclosure. These draft recommendations include the following. <ul style="list-style-type: none"> ➤ Insurers should ensure connectivity between the information presented in their financial statements and their climate disclosures. ➤ Supervisors should encourage the development and adoption of standardised indicators and disclosure formats for climate-related risks. ➤ Climate-related risks should be fully integrated into supervisory reporting where material.
	3	Basel Committee on Banking Supervision (BCBS)	9 July 2024	<ul style="list-style-type: none"> ■ The BCBS issued a draft of the principles for the sound management of third-party risk. The draft paper contains 12 principles on (i) governance, risk management and strategy, (ii) risk assessment, (iii) due diligence, (iv) contracting, (v) onboarding and ongoing monitoring, (vi) termination and (vii) role of supervisors. These principles include the following.

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

				<ul style="list-style-type: none"> ➤ The board of directors has ultimate responsibility for the oversight of all third-party service provider (TPSP) arrangements and approves a clear strategy for TPSP arrangements within the bank's risk appetite and tolerance for disruption. ➤ Banks perform a comprehensive risk assessment under the third-party risk management framework to evaluate and manage identified and potential risks both before entering into and throughout a TPSP arrangement. ➤ Banks maintain exit plans for planned terminations and exit strategies for unplanned terminations of TPSP arrangements.
Europe	4	U.K. Prudential Regulation Authority (PRA)	26 July 2024	<ul style="list-style-type: none"> ■ The PRA finalised its supervisory statement on Funded Reinsurance, in which the PRA sets out its expectations in respect to insurers entering into or holding funded reinsurance arrangements as cedants. Supervisory expectations on ongoing risk management include the following. <ul style="list-style-type: none"> ➤ Counterparty internal investment limits: In developing internal investment limits, insurers should at a minimum calculate the impact of 'immediate recapture' on their solvency capital requirement (SCR) coverage ratio. ➤ Collateral policy: Insurers should have clear collateral policies in place as part of their risk management policies. ➤ Recapture plan: Insurers' recapture plan should at a minimum cover approaches to monitoring the financial conditions of the counterparty to the funded reinsurance arrangement and a step-by-step process for achieving the recapture of all the assets and liabilities from the relevant counterparties, etc.
	5	European Supervisory Authorities (ESAs)	26 July 2024	<ul style="list-style-type: none"> ■ The ESAs, which are comprised of the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority, published a final draft of the Regulatory Technical Standards (RTS) on subcontracting ICT services supporting critical or important functions under the Digital Operational Resilience Act (DORA). Requirements on subcontracting such ICT services include the following. <ul style="list-style-type: none"> ➤ Before entering into an arrangement with an ICT third-party service provider (TPSP), a financial institution shall decide whether an ICT service supporting critical or important functions may be subcontracted by an ICT TPSP only after having completed a risk assessment of potential subcontractors. ➤ A financial institution shall identify in written contractual arrangements with an ICT TPSP which ICT services are eligible for subcontracting and under which conditions.

			<ul style="list-style-type: none"> ➤ A financial entity shall be informed of any material changes to the subcontracting arrangements with a notice period sufficient to assess the risks or these changes.
6	European Supervisory Authorities (ESAs)	17 July 2024	<ul style="list-style-type: none"> ■ The ESAs published the second set of final draft rules under the Digital Operational Resilience Act (DORA). ■ The package includes a draft of the Regulatory Technical Standards (RTS) on threat-led penetration tests (TLPTs). The draft RTS sets out criteria to identify financial entities that will be required to perform TLPT. Criteria for the identification of insurers that perform TLPT include the following. <ul style="list-style-type: none"> ➤ Gross written premium exceeding 1.5 billion euros; ➤ Technical provisions exceeding 10 billion euros; and ➤ Total assets exceeding 3.5% of the sum of the total assets of (re)insurers established in the Member State in case of life and composite insurers
7	U.K. Prudential Regulation Authority (PRA)	15 July 2024	<ul style="list-style-type: none"> ■ The PRA published its statement on the dynamic general insurance stress test (DyGIST) to be conducted in 2025, in which the PRA mentioned the (i) design and timetable of the stress test and (ii) participating insurers. ■ Key milestones that were announced include following. <ul style="list-style-type: none"> ➤ Launch: In May 2025, insurers will be asked to provide initial financial impact assessments under the prescribed stress scenarios. ➤ Final assessment: By the end of July 2025, insurers will be asked to submit a final quantitative template with estimates of the impact of adverse events. ➤ Publication: The findings from the stress test will be published in Q4 2025.
8	U.K. Prudential Regulation Authority (PRA)	10 July 2024	<ul style="list-style-type: none"> ■ The PRA published its approach to Life Insurance Stress Test (LIST) 2025. The objectives of the LIST are to (i) assess sector and individual firm resilience, (ii) strengthen market understanding and discipline and (iii) improve insight into risk management vulnerabilities. Key elements of this approach include the following. <ul style="list-style-type: none"> ➤ Scope: 11 life insurers in the U.K. who participate in the Bulk Purchase Annuity (BPA) market and have the largest annuity portfolios ➤ Scenarios: (i) Core scenario (market shocks with a 1-in-100-year severity) and (ii) two exploratory scenarios (i.e., asset type concentration stress and FundedRe recapture stress) ➤ Timeline: To launch the exercise in January 2025 and publish the results in Q4 2025

	9	European Insurance and Occupational Pensions Authority (EIOPA)	2 July 2024	<ul style="list-style-type: none"> ■ The EIOPA issued its opinion on the supervision of captive insurers, focusing on cash pooling arrangements, application of the Prudent Person Principle and their governance. The objectives are to facilitate a risk-based supervision of captive (re)insurers and further harmonise supervisory expectations on that. Opinions expressed include the following. <ul style="list-style-type: none"> ➤ Captive (re)insurers should recognise and classify their assets and liabilities and calculate the Solvency Capital Requirement (SCR) properly based on the economic substance of the cash pooling arrangement. ➤ Captive (re)insurers should assess all risks and benefits brought by intra-group transactions, such as liquidity and concentration risks linked to a material reliance on these transactions. ➤ Captive (re)insurers should comply with the Prudent Person Principle.
Americas	-	-	-	-
Asia Pacific	10	Australian Prudential Regulation Authority (APRA)	11 July 2024	<ul style="list-style-type: none"> ■ The APRA and the Australian Securities and Investments Commission (ASIC) finalised the 16 key functions of insurers that are subject to the Financial Accountability Regime (FAR). The FAR will be applied to insurers that meet a certain threshold in March 2025, and these insurers will be required to register an accountable person for each key function with the supervisors. ■ Key functions of the insurers include the following. <ul style="list-style-type: none"> ➤ Capital management function ➤ Conduct risk management function ➤ Product design and distribution obligations function

Sources:

1. FSB 'Stocktake on Nature-related Risks: Supervisory and regulatory approaches and perspectives on financial risk'
2. IAIS 'Public consultation on climate risk supervisory guidance'
3. BCBS 'Principles for the sound management of third-party risk'
4. PRA 'SS5/24 – Funded reinsurance'
5. EIOPA 'Joint Final Report on draft RTS on subcontracting ICT services supporting critical or important functions under DORA'
6. EIOPA 'ESAs publish second batch of policy products under DORA'
7. PRA 'Prudential Regulation Authority (PRA) statement on the design of the dynamic general insurance stress test (DyGIST) 2025'
8. PRA 'Life Insurance Stress Test (LIST) 2025'
9. EIOPA 'EIOPA issues opinion on the supervision of captive insurer'
10. APRA 'APRA and ASIC issue final rules and information for the Financial Accountability Regime'

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