Regulatory developments in the global insurance sector

Vol. 51 (September to October 2024)

Executive summary[1]

Region	No	Organisation(s)	Date	Regulatory developments
Global	-	-	-	-
Europe	1	U.K. Prudential Regulation Authority (PRA)	27 September 2024	■ **The PRA published a summary of the findings from their thematic review of IFRS 9 for expected credit loss accounting (ECL) and accounting for climate risks**. Findings associated with financial institutions' capabilities to quantify the impact of climate risk on ECL include the following. ➢ Financial institutions (FIs) continued to make progress in enhancing the identification of climate-related risk drivers used to quantify their exposure to borrowers most at risk. The identification continues to rely on their expert judgment and understanding of their portfolios. ➢ FIs are moving to more granular and sophisticated analyses to quantify the impact of specific climate-related risk drivers on ECL. For corporate portfolios, climate risks are being taken into consideration in counterparty or loan-level credit assessments for large exposures.
	2	European Insurance and Occupational Pensions Authority (EIOPA)	26 September 2024	■ **The EIOPA issued the draft Opinion on the supervision of liquidity risk management of Institutions for Occupational Retirement Provision** (IORPs). One of the supervisors' concerns is that IORPs tend to have low cash holdings and thus the requirement to fulfil variation margin with cash imposes high demands on the liquidity risk management of IORPs. Supervisory expectations presented in the draft Opinion include the following. ➢ The supervisor should assess the liquidity risks to which IORPs are (potentially) exposed. Where IORPs are exposed to material liquidity risks, the supervisor should assess the ability of these IORPs to assess and manage those risks. ➢ IORPs with material liquidity risks should establish and maintain a clearly defined liquidity risk tolerance statement that defines, for example, sources of material liquidity risk and the timescales over which these risks will materialise. ➢ IORPs with material liquidity risks should periodically test their liquidity contingency plan.
	3	European Supervisory Authorities (ESAs)	10 September 2024	■ **The ESAs**, which are the European Banking Authority (EBA), the EIOPA and the European Securities and Markets Authority (ESMA), **issued their Autumn 2024 Joint Committee Report on risks and vulnerabilities in the EU financial system**. Risks and vulnerabilities that are relevant to the insurance sector 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 51 report. It is advised that you refer to the respective original materials for accurate information.

				➢ Geopolitical risks could influence European insurers' risk assessment, pricing decisions, coverage offerings and investment strategies. ➢ Cyber risks remain high in the tense geopolitical context. ➢ Insurers' exposures to private debt and private equity are under close monitoring. In Q4 2023, insurers still had a significant allocation to alternative assets, which comprised 16% of their investments.
Americas	4	U.S. National Association of Insurance Commissioners (NAIC)	18 September 2024	■ **The NAIC sent a letter to Congress regarding State Insurance Regulators' approach to climate risk** in response to a congressional letter. Key messages of the NAIC letter include the following. ➢ Property insurers have experienced several challenging years of underwriting performance with a combined ratio of over 100% due to catastrophic events, etc. Insurers have had to respond by raising prices significantly and adjusting businesses they can offer in some markets that are more prone to catastrophic losses. ➢ Insurance alone is not going to address our national response to the increasing frequency and severity of weather events, while states are best positioned to work on insurance pricing and availability issues. ➢ The NAIC urges Congress to pass the Disaster Mitigation and Tax Parity Act of 2023, which excludes any qualified catastrophe mitigation payments made under a state-based programme from gross income.
	5	Canada Office of the Superintendent of Financial Institutions (OSFI)	10 September 2024	■ **The OSFI finalised its methodology for the Standardised Climate Scenario Exercise** (SCSE). 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 will analyse (i) the impact of climate transition on market and credit risks for commercial exposures and (ii) the impact of transition and physical risks on real estate exposures. Financial institutions are required to submit the results of their exercise towards January 2025.
Asia Pacific	6	Monetary Authority of Singapore (MAS)	25 September 2024	■ **The MAS published a draft of the guidelines for recovery and resolution planning of insurers**. The guidelines will take effect in January 2025. Key requirements/expectations proposed include the following. ➢ The notified insurer's and notified Designated Financial Holding Company (DFHC)'s recovery planning process, including development, review, approval, monitoring, escalation, activation and implementation of the recovery plan, should be integrated into their overall governance processes and risk management framework.

				➢ Where the execution of any recovery option is dependent on other entities or stakeholders, such as the parent company, these dependencies and the processes to coordinate the execution should be clearly set out in the recovery plan. ➢ The resolution plan is expected to include information on (i) functions for which continuity is critical, (ii) resolution options, (iii) data requirements on their business operations, structures and critical functions, (iv) potential barriers to effective resolution, etc.
	7	Australian Securities & Investments Commission (ASIC)	18 September 2024	■ **The ASIC urged businesses to prepare for mandatory climate reporting** as a bill that proposed mandatory climate reporting for large businesses and financial institutions in Australia passed the Parliament in September 2024. ■ Under the new law, the following entities (businesses) will be required to do annual sustainability reporting from January 2025. Asset owners with $5 billion or more assets under management will be in Group 2 of reporting entities that are required to perform annual reporting from July 2026. ➢ Large entities that meet at least two of the three criteria: $500 million or more consolidated revenues; $1 billion or more consolidated gross assets and 500 or more employees ➢ National Greenhouse and Energy Reporting (NGER) reporters with 50 kilotonnes or more of GHG emissions (Scopes 1 and 2)
	8	Insurance Regulatory and Development Authority of India (IRDAI)	5 September 2024	■ **The IRDAI issued its Master Circular on protection of policyholders' interests** as part of steps towards reinforcing the empowerment of policyholders. Key features of the Master Circular include the following. ➢ Essential information at various stages of an insurance contract: Insurers are required to provide information to customers prior to sales, at the proposal stage, upon receiving policy documents, during the policy term and at the time a claim is made. ➢ Free Look Period: Policyholders may cancel their insurance contracts within the 30-day Free Look Period when they are not satisfied with the product. ➢ Assessment of suitability: Insurers are required to assess the suitability of a product for customers in case of savings-related life insurance products and annuity products.

Sources:

1. PRA ‘Letter from David Bailey ‘Thematic feedback on accounting for IFRS 9 ECL and climate risk’’
2. EIOPA ‘EIOPA seeks feedback on measures aimed at strengthening the supervision of occupational pension funds’ liquidity management’
3. EIOPA ‘ESAs warn of risks from economic and geopolitical events’
4. NAIC ‘NAIC Letter to Congress Reiterates State Insurance Regulators' Multi-Faceted Approach to Climate Risk’
5. OSFI ‘OSFI takes data-driven approach to understanding potential impacts of climate risks at financial institutions’
6. MAS ‘Consultation Paper on Guidelines to MAS Notice 134 on Recovery and Resolution Planning’
7. ASIC ‘ASIC urges businesses to prepare for mandatory climate reporting’
8. IRDAI ‘Press release: IRDAI Strengthens measures to empower the Policyholders’

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