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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)	14 November 2024	■ **The IAIS approved Insurance Capital Standard (ICS) for adoption and concluded Aggregation Method (AM) comparability assessment**. Outcomes from the AM comparability assessment include the following. ➢ For U.S. life groups, available capital as well as capital requirement is lower under the Provisional AM. Also, for both U.S. non-life and life groups, available capital under the Provisional AM tends to fall rapidly in severe stress scenarios. ➢ For some U.S. life groups, the Provisional AM and ICS solvency ratios as well as required/available capital change differently (in direction) in response to economic and financial market conditions under some scenarios. ➢ There are instances where the Provisional AM may not be as prudent as the ICS for U.S. life groups.
	2	Financial Stability Board (FSB)	14 November 2024	■ **The FSB published a report on the financial stability implications of artificial intelligence**. The report analysed how AI-related developments affect key financial sector vulnerabilities, which include the following. ➢ Third-party dependencies and service provider concentration: Complexity in AI supply chains, highly concentrated markets for inputs to AI development and market consolidation in the financial data aggregation market could increase service provider concentration vulnerabilities. ➢ Market correlations: Broader usage of AI in financial markets could lead to common modelling approaches and training data sources across financial institutions. ➢ Cyber: Greater usage of specialised service providers exposes financial institutions to operational risk from cyber events affecting these vendors.
Europe	3	European Insurance and Occupational Pensions Authority (EIOPA)	15 November 2024	■ **The EIOPA released its opinion on the scope of the European Digital Operational Resilience Act (DORA)**, requesting to making the scope aligned with that of the updated Solvency II framework. ■ The updated Solvency II framework, which is not expected to become applicable until the end of 2026, raised the 'size thresholds' and, as a result, some insurers, to which the current Solvency II is applied, would not be in the scope of the updated framework.

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

				■ The DORA, which will become applicable in January 2025, will be applied to the insurers under the current framework, and therefore, there may be a gap in terms of the scope between the two.
	4	European Supervisory Authorities (ESAs)	15 November 2024	■ **The ESAs**, which are the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA), **published its decision on the information that regulatory authorities must report to the ESAs for the designation of critical ICT third-party service providers (TPSPs) under the Digital Operational Resilience Act (DORA)**. Information that needs to be submitted to the ESAs include the following. ➢ The registers of information on contractual arrangements on the use of ICT services provided by ICT TPSPs ➢ A list of financial entities that are identified as systemic by the competent authorities, including information on their home jurisdiction and their lead supervisor ➢ Master data (*Details will be specified.)
	5	U.K. Prudential Regulation Authority (PRA)	12 November 2024	■ **The PRA**, together with the Financial Conduct Authority and the Bank of England, f**inalised its supervisory statement on critical third parties to the U.K. financial sector in the context of operational resilience**. The supervisory statement sets out operational risk and resilience requirements in eight areas, which include the following. ➢ Governance: A critical third party (CTP) must ensure that its governance arrangements promote the resilience of any systemic third-party service it provides by, e.g., establishing clear roles and responsibilities at all levels for its staff who are essential to the delivery of a systemic third-party service. ➢ Dependency and supply chain risk: A CTP must identify and manage any risks to its supply chain that could affect its ability to deliver a systemic third-party service. ➢ Technology and cyber resilience: A CTP must take reasonable steps to ensure the resilience of any technology that delivers, maintains or supports a systemic third-party service by, e.g., having effective and comprehensive strategies. ➢ Termination of services: A CTP must have in place appropriate measures to respond to a termination of any of its systemic third-party services.
	6	European Insurance and Occupational	7 November 2024	■ **The EIOPA published a report on prudential treatment of sustainability risks**. Proposals made in the report include the following.

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<tr><td></td><td></td><td>Pensions Authority (EIOPA)</td><td></td><td>

Assets and transition risks

Equity risk: To introduce a supplementary capital requirement of up to 17% in additive terms to the current capital charges for fossil fuel-related stocks
Spread risk: To increase capital requirements of up to 40% relative to the current capital requirement for fossil fuel-related bonds
Property risk: Too early to conclude that additional capital charges are needed in terms of energy efficiency of a building

Adaptation measures and prudential non-life underwriting risks

Not to recommend changing the prudential treatment of premium risk in the context of climate-related adaptation measures due to, e.g., the limited number of data samples

Social risks and impacts from a prudential perspective

To suggest continuing work on this in terms of developing an application guidance to support the social risk materiality assessment for the purpose of insurers' ORSA

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<tr><td>Americas</td><td>7</td><td>Canada Office of the Superintendent of Financial Institutions (OSFI)</td><td>21 November 2024</td><td>
■ The OSFI released a regulatory notice on culture risk management. Supervisory expectations on financial institutions' culture risk management expressed in the notice include the following.

Governance: Senior management is responsible for culture risk management by, e.g., defining, promoting, embedding and managing the desired culture needed to achieve its mission and strategy and manage risk effectively.
Fostering desired culture: Senior management sets the tone from the top for the desired culture and models the desired culture through their words, actions and decisions.
Managing culture risks: Culture risks are proactively managed by developing measures to identify and assess culture risk, and assessing their root causes, impacts, potential consequences and effects on other risks.

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<tr><td>Asia Pacific</td><td>8</td><td>Australian Prudential Regulation Authority (APRA)</td><td>13 November 2024</td><td>
■ The APRA released the results of its second climate risk self-assessment survey. All APRA-regulated banks, insurers and superannuation trustees were invited and 149 participated in the assessment. Major findings from the survey include the following.

Around one-quarter of large entities have seen their overall climate risk maturity decline since the 1st survey in 2022 with a drop of disclosure maturity, while most large entities have improved their climate risk maturity.

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				➢ Within the insurance industry, there is a large difference in climate risk maturity; the general insurance cohort is with the highest maturity, followed by the life insurance and then private health insurance cohorts. ➢ Financial institutions are starting to consider adjacent areas, such as nature risk and transition plans.
	9	Bank Negara Malaysia (BNM)	7 November 2024	■ **The BNM published an exposure draft on risk management in technology**, outlining new requirements on the financial institutions' management of technology risks to improve the resilience of financial institutions and enhance system-wide cyber defence. The draft proposes policy requirements, i.e., standards and guidelines, in eight areas, which include the following. ➢ Governance: The board must establish and approve the technology risk appetite which is aligned with the financial institution's risk appetite statement. ➢ Technology risk management: A financial institution must ensure that the technology risk management framework (TRMF) is an integral part of the financial institution's enterprise risk management frameworks. ➢ Cybersecurity management: A financial institution must develop a cyber risk management framework that articulates the financial institution's governance for managing cyber risks, cyber resilience objectives and risk tolerance. ➢ External party assurance: A financial institution shall appoint a technically competent external service provider to carry out a production data centre resilience and risk management, as well as regular network resilience and risk assessments.

Sources:

1. IAIS ‘IAIS Executive Committee approves Insurance Capital Standard for adoption by IAIS members and concludes Aggregation Method comparability assessment’
2. FSB ‘The Financial Stability Implications of Artificial Intelligence’
3. EIOPA ‘EIOPA releases its Opinion on the scope of DORA in light of the review of the Solvency II framework’
4. EIOPA ‘The ESAs announce timeline to collect information for the designation of critical ICT third-party service providers under the Digital Operational Resilience Act’
5. PRA ‘SS6/24 – Critical third parties to the UK financial sector’
6. EIOPA ‘EIOPA recommends a dedicated prudential treatment for insurers’ fossil fuel assets to cushion against transition risks’
7. OSFI ‘OSFI's fall Quarterly Release: Unveiling new risk guidelines, adjusting mortgage standards and easing regulatory burden’
8. APRA ‘APRA releases survey results assessing management of risks associated with climate change in the financial sector’
9. BNM ‘Risk Management in Technology (RMiT): Exposure Draft’

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