Regulatory developments in the global insurance sector

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Executive summary[1]

Region	No	Organisation(s)	Date	Regulatory developments
Global	-	-	-	-
Asia Pacific	1	Reserve Bank of New Zealand	31 August 2021	■ **The Reserve Bank issued a consultation paper on policyholder security** as part of reforms of insurance regulation in New Zealand. The consultation paper explores issues relating to the following four areas. ➢ Financial strength disclosures • Disclosures of financial strength ratings provided by ratings agencies: Issues include (i) exemption of small insurers from the requirement, (ii) rotation of ratings agencies and (iii) standardisation of information to be disclosed by insurers. • Disclosures of solvency information: The paper discusses whether additional information, such as projected solvency ratios, should be disclosed. ➢ Solvency standards in the Insurance Prudential Supervision Act: Whether there should be more than one ladder for supervisory intervention. ➢ Termination values: How termination values (surrender values) should be calculated. ➢ Statutory funds: Insurance products that should be in the scope of statutory funds.
	2	Bank Negara Malaysia	30 August 2021	■ **The Bank published an exposure draft that sets out proposed requirements on bancassurance for consultation.** The intention is to promote sound market conduct practices that safeguard consumer interests through needs-based sales, disclosure and enhanced transparency, etc. ■ Proposed requirements include, but are not limited to, the following. ➢ The insurer establishes quantifiable parameters and KPIs relevant to the risks presented to consumers (e.g. risks arising from product design, incentive structures for sales staff, customer profiling and sales and marketing practices). ➢ The insurer sets appropriate targets tied to the payment of upfront fees that aim at, e.g., ensuring the delivery of quality sales.

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

				➢ For products that have both insurance and banking elements, the insurer unbundles the insurance element and discloses the commissions.
	3	Australian Prudential Regulation Authority (APRA)	26 August 2021	■ **APRA published an updated supervisory plan for 2021 to 2025 that sets out APRA's strategic priorities**. Strategic priorities that relate to the insurance sector include the following. ➢ Preserve the resilience of insurers • To address accessibility and affordability of insurance products, to promote the sustainability of insurance products for the long-term benefit of consumers and to ensure credible recovery plans are in place in the insurance sector. • To ensure cyber resilience across the Australian financial system. • To transform governance, culture, remuneration and accountability (GCRA) across the financial sector. ➢ Ensure the financial system is prepared for tomorrow • To scan the horizon to better understand the impact of new financial activities and emerging business models and the wider implications for system safety and stability. • To address issues in the affordability and availability of insurance across the general, life and private health insurance sectors to improve outcomes for Australians. • To continue work on financial risks associated with climate change, which includes finalising prudential guidance and conducting climate vulnerability assessments.
	4	Australian Securities & Investments Commission (ASIC)	26 August 2021	■ **ASIC released its Corporate Plan for 2021 to 2025 that outlines ASIC's supervisory priorities** to achieve a fair, strong and efficient financial system. Focus areas related to the insurance sector include the following. ➢ Insurance outcomes for consumers affected by natural disasters • To analyse data to measure harm toward consumers and develop a risk-based approach for responding to consumer harm resulting from natural disasters. ➢ Review of conflicted remuneration in general insurance • To collect data to support the Australian Government's response to Financial Services Royal Commission Recommendations relating to how remuneration structures affect consumer outcomes in the sale of general insurance.

				➢ General insurance pricing misconduct • To review whether premiums and advertised discounts are correctly calculated and charged. • To review adequacy of controls used by insurers to identify and adequately respond to pricing issues such as overcharging of premiums to consumers. ➢ Cyber resilience (for all sectors) • To assess selected regulated entities' cyber resilience and management of cyber risks.
Europe	5	De Nederlandsche Bank (DNB)	6 September 2021	■ **DNB published a report on BigTech and the Dutch financial sector,** 'Changing landscape, changing supervision: Developments in the relationship between BigTechs and financial institutions'**, in which DNB provides the following implications for policies and supervision in the Dutch financial sector.** ➢ Financial institutions must be seriously challenged on the sustainability of their business models. DNB will seriously challenge institutions on their strategies and the sustainability of their business models in view of the ongoing digitalisation of financial services. ➢ The regulatory framework must be adjusted to address new risks. The rise of BigTech in the financial sector may entail concentration risks in the areas of financial services, the distribution of financial products and services and access to consumer data. In the longer term, the continuity and resolvability of systemically important BigTechs and distribution platforms may also require attention. ➢ Financial supervision of BigTechs at the European level is required. Individual supervisory authorities with mandates in the areas of cybersecurity, data protection, competition and financial supervision should intensify their cooperation to enable more comprehensive supervision. ■ **As to the insurance sector the report describes that the Dutch non-life insurance market could be greatly impacted by partnerships with BigTechs** due to the relatively large scope for cooperation in the use of data analysis, the deployment of innovations and the provision of supplementary services, while the potential impact on the health insurance and life insurance markets appears limited due to the high degree of regulation and the sustained contraction of the life insurance market, etc.
	6	European Commission (EC)	27 August 2021	■ **EC released a report that explores the integration of ESG factors into banks' risk management processes, business strategies and investment policies, as well as into prudential supervision** based on the outcomes from the study it conducted. Major findings from the study include the following.

				➢ Risk management • A common and granular definition of ESG risks among banks does currently not exist. • Few banks appear to have an explicit and comprehensive ESG risk strategy in place. • Banks’ measurement of their exposure to ESG risks is very limited and the current degree of ESG integration in their risk management processes is also limited. • Integration of ESG risks into risk models and stress testing is at an early stage. ➢ Prudential supervision • There is debate amongst supervisors as to whether the double materiality perspective should be adopted when looking at ESG risks. The majority acknowledge the importance of considering the environmental and social impact of banking activities, while others consider that the focus of prudential supervision should remain on financial materiality. • Many supervisors do not currently consider Pillar 1 tools as the best suited to address ESG risks, while a number of civil society organisations see capital requirements as an effective tool. ➢ Banks’ business strategies and investment policies • Portfolio analysis of banks’ ESG lending and investment activity is often limited to certain sectors and product types. ■ The conclusions presented in the report include the following. ➢ Banks should make significant efforts to enhance data quality, availability and comparability. ➢ Where possible, ESG risks should be integrated in risk management frameworks through quantitative approaches.
	7	Financial Conduct Authority (FCA)	25 August 2021	■ **FCA reviewed insurers’ product governance to evaluate to what extent insurers meet supervisory expectations on product governance** provided by rules and guidance in advance of the implementation of new rules on product governance in October 2021. Over 20 firms, including insurers and intermediaries from different sectors of the general insurance and protection market, were requested for information. ■ Major findings from the review include the following. ➢ Value to customers and oversight of remuneration

				• Firms are reassessing commission levels as part of product governance processes, while some firms have not properly assessed products in light of commission levels. • Some firms are still unsure how to assess the relationship between commission levels and the benefits being added by the parties in the distribution chain. ➢ Product benefits and coverage • A few firms create new products or made underwriting, pricing or coverage changes without appropriate regard to customer outcomes. ➢ Governance and oversight • Some firms have not implemented appropriate governance and oversight of product development and review, including robust and well-evidenced challenges within the firm. • Where there was a co-manufacturing arrangement or the delegation of authority to a third party, the way decisions were made did not always correspond with those set out in the contractual agreement. ➢ Action taken to prevent or mitigate Covid-19 related harm • Most products maintain their core utility and value to the overall target market. Where this is not the case, some firms have taken actions by, e.g., providing adjusted benefits/services or refunds. Some firms, however, may not have identified potentially excessive profits indicating poor value to customers.
Americas	8	Federal Insurance Office, Departmental Offices, Department of the Treasury (FIO)	31 August 2021	■ **FIO issued a request for information on the insurance sector and climate-related financial risks.** ■ FIO intends to initially focus on the following three climate-related priorities. ➢ Insurance supervision and regulation: To assess climate-related issues in the supervision and regulation of insurers. ➢ Insurance markets and mitigation/resilience: To assess the potential for major disruptions of private insurance coverage in U.S. markets that are particularly vulnerable to climate change impacts and facilitate mitigation and resilience for disasters. ➢ Insurance sector engagement: To increase FIO's engagement on climate-related issues. ■ The information FIO seeks includes the following. ➢ Climate-related data: What specific types of data are needed to measure and effectively assess

				the insurance sector's exposures to climate-related financial risks? ➢ Insurance supervision and regulation: How should FIO identify and assess climate-related issues in light of (i) prudential concerns, (ii) market conduct regarding insurance products and services and (iii) consumer protection? ➢ Insurance markets and mitigation/resilience: How should FIO assess the availability and affordability of insurance coverage in U.S. markets and how can insurer solvency be taken into consideration in these assessments?

Sources:

1. Reserve Bank of New Zealand ‘Reserve Bank invites feedback on insurance policyholder protection’
2. Bank Negara Malaysia ‘Bancassurance/Bancatakaful Exposure Draft’
3. APRA ‘APRA’s new Corporate Plan focuses on protecting today, while preparing for tomorrow’
4. ASIC ‘21-225MR ASIC publishes Corporate Plan 2021-25’
5. DNB ‘Rise of BigTechs requires adjustments in financial supervision’
6. EC ‘Final study on the development of tools and mechanisms for the integration of ESG factors into the EU banking prudential framework and into banks' business strategies and investment policies’
7. FCA ‘FCA warns insurance firms over product governance rules deadline’
8. FIO ‘Federal Insurance Office Request for Information on the Insurance Sector and Climate-Related Financial Risks’

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