# Regulatory developments in the global insurance sector

## Vol. 13 (July to August 2021)

## Executive summary[1]

| Region | No | Organisation(s) | Date | Regulatory developments |
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| Global | 1 | Intergovernmental Panel on Climate Change (IPCC) | 6 August | ■ **The IPCC published the first part of the Sixth Assessment Report (AR6) 'Climate Change 2021:** The Physical Science Basis', which includes the 'Summary for Policymakers' that presents key findings of the Working Group I contribution to AR6.<br>■ The Summary states that:<br>➢ It is unequivocal that human influence has warmed the atmosphere, ocean and land.<br>➢ Global warming of 1.5°C and 2°C will be exceeded during the 21st century unless deep reductions in $CO_2$ and other greenhouse gas emissions occur in the coming decades.<br>➢ Limiting human-induced global warming to a specific level requires limiting cumulative $CO_2$ emissions, reaching at least net zero $CO_2$ emissions, along with strong reductions in other greenhouse gas emissions. |
| Asia Pacific | 2 | Hong Kong Insurance Authority (IA) | 5 August | ■ **IA pointed out that the preferential treatment accredited to Hong Kong under the China Risk Oriented Solvency System (C-ROSS) is conductive to enhancing cross-border financial connectivity**, injecting impetus into the active participation and support of Hong Kong in both the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Greater Bay Area development.<br>■ The China Banking and Insurance Regulatory Commission (CBIRC) announced an extension of the preferential treatment for another year to 30 June 2022, which allows the capital requirement of Mainland insurers ceding businesses to qualified Hong Kong professional reinsurers to be lowered continuously. |
| | 3 | Australian Prudential Regulation Authority (APRA) | 3 August | ■ **APRA conducted a series of stress testing activities on life and general insurers** in 2020. These stress tests covered 21 largest life insurers and four active lenders mortgage insurers as well as 18 largest general insurers.<br>■ The stress tests revealed that:<br>➢ Both life insurers and lenders mortgage insurers as a whole remained above their minimum capital requirements, while still meeting their commitments to policyholders. |

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

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| | | | | ➢ The outcomes nevertheless varied across both industries, with some individual insurers falling below their minimum capital requirements. After deploying management actions to mitigate the stress, however, capital levels return towards pre-stress levels.<br>■ APRA encourages insurers to consider how recovery plans can be improved in light of these stress-test findings to increase their credibility, noting that the impact of the stress scenarios highlights the importance of credible recovery options. |
| | 4 | Australian Securities & Investments Commission (ASIC) | 28 July | ■ **ASIC finalised new regulatory guidance regarding the new deferred sales model for add-on insurance**. The new regulation becomes effective in October 2021.<br>■ The deferred sales model requires a clear four-day pause between when a customer enters a commitment to acquire a principal product or services (such as home loans, motor vehicles, furniture removals, and mobile phones) and when they are offered or sold an add-on insurance product ('deferred period'). |
| | 5 | Reserve Bank of New Zealand | 22 July | ■ **The Reserve Bank published a draft interim solvency standard for consultation.** The draft standard takes into account logics in IAIS Core Principles 14 (Valuation) and 17 (Capital Adequacy) and existing solvency standards in, e.g. Australia and the European Union.<br>■ The solvency standard review is comprised of two stages. An interim solvency standard is planned to take effect in early 2022 after this public consultation; a final solvency standard will come into effect in 2024. The interim standard is intended to provide a standard that will work effectively after IFRS 17 is introduced and to embody the core principles adopted in March 2021.<br>■ The impacts that the new standard is expected to have on insurers include: (i) increase in general insurers' required capital for some businesses classified as long-term; (ii) increase in life insurers' insurance liabilities due to inclusion of risk adjustments in those liabilities; and (iii) increase in required capital for all insurers due to operational risk charge. |
| | 6 | Australian Prudential Regulation Authority (APRA) | 19 July | ■ **APRA required several general insurers to review the soundness of their risk management frameworks** to prevent similar problems that were observed in the context of business interruption insurance occurring in the future.<br>■ Selected insurers are requested to (i) review the robustness of their risk management frameworks from the perspectives of, e.g. product life cycle management and the governance framework supporting oversight of the risk management and (ii) assess the effectiveness of those frameworks focusing on silent cyber exposures and cyber products (where relevant). |

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| | | | | ■ The results to be submitted to APRA by 30 November are expected to be subject to review by the internal audit function and endorsement by the Board of Directors. |
| | 7 | Hong Kong Green and Sustainable Finance Cross-Agency Steering Group | 15 July | ■ **The Steering Group** co-chaired by the Hong Kong Monetary Authority and the Securities & Futures Commission of Hong Kong **announced the next steps to advance its strategy to bolster Hong Kong's position as a leader in green and sustainable finance.**<br>■ The steering Group places its focus primarily on (i) climate-related disclosure and sustainability reporting and (ii) carbon market opportunities. On the latter, the Group is seeking to capitalise carbon market opportunities as the global carbon market is expected to grow significantly. |
| Europe | 8 | Central Bank of Ireland (CBI) | 6 August | ■ **CBI proposed to introduce guidance on its expectations of insurers who choose to enter arrangements for the use of separate legal entities for the provision of extensive staffing to insurers**, given that a number of insurers are seeking to enter such agreements. The CBI considers that these arrangements, if not effectively managed, could threaten operational resilience of insurers.<br>■ Under the draft guidance insurers are expected to, e.g.:<br>➢ Have robust governance arrangements in place that adequately take staffing arrangements into account and integrate those arrangements appropriately into their risk management systems and internal control frameworks;<br>➢ Address potential conflicts of interest associated with staffing arrangements in their written policy and written agreement; and<br>➢ Ensure that the staffing arrangement is adequately incorporated into their overall operational resilience framework, including business continuity, recovery and resolution planning. |
| | 9 | U.K. Prudential Regulation Authority (PRA) | 4 August | ■ **PRA announced that its Insurance Stress Test 2022 will be launched in May 2022.** The stress test will primarily focus on economic stresses for life insurers and natural catastrophe perils and cyber underwriting risks for general insurers. |
| | 10 | European Insurance and Occupational Pensions Authority (EIOPA) | 23 July | ■ **EIOPA issued a consultation paper on the supervision of run-off insurers.** The aim is to ensure that a high-quality and convergent supervision is applied to run-off insurers and/or portfolios, given that the number and size of run-off portfolios are increasing and a growing interest from investors in acquiring such portfolios has been observed.<br>■ The draft statement sets out several requirements/expectations for 'specialised run-off insurers' whose business model is to actively acquire legacy portfolios/insurers in run-off. Those |

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| | | | | requirements/expectations include the following.<br>➢ Protection of policyholders should not be impaired by run-off insurer/portfolio-related transactions.<br>➢ The supervisor may request the acquirer to make commitments to safeguard the interest of policyholders such as loss transfer agreement and/or to provide collateral to back up such commitments.<br>➢ Supervisors should pay attention to the acquirer's ability to service the (long-term) liabilities and the capacity of administration of those policies, and also ensure that policyholders' future discretionary benefits will not be unreasonably reduced. |
| | 11 | Central Bank of Ireland (CBI) | 21 July | ■ **CBI proposed to ban practices of price walking for private car and home insurance customers.**<br>■ The proposals require insurers to, e.g.:<br>➢ Not charge personal consumers who are on their second or subsequent renewal a premium higher than the insurer would have charged them if they were a year one renewal consumer;<br>➢ Carry out an annual review of their motor and home insurance pricing policies, processes and models; and<br>➢ Issue a notification in advance of the automatic renewal date with information on, e.g. how to cancel the automatic renewal. |
| | 12 | U.K. Prudential Regulation Authority (PRA) | 20 July | ■ **PRA launched its Quantitative Impact Study (QIS) for the Solvency II review**, which focuses on three key components, i.e. the risk margin, the matching adjustment (MA) and the transitional measure on technical provisions.<br>■ On the risk margin, insurers are asked to calculate the risk margin using (i) an approach similar to the margin over current estimate (MOCE) used in the Insurance Capital Standards (ICS) of the International Association of Insurance Supervisors (IAIS) and (ii) a 'risk tapering' (or lambda) approach which is equivalent to that set out in EIOPA's Opinion on the 2020 Review of Solvency II.<br>■ On MA, insurers are asked to apply a credit risk premium (CRP) cap and floor and valuation uncertainty, etc. that correspond to levels of credit quality step. PRA has expressed its concern about MA that the current MA design risks allowing insurers to recognise upfront, as capital, future returns that may not be materialise. |
| | 13 | European Insurance and Occupational | 19 July | ■ **EIOPA published its supervisory statement on ORSA**, which stresses the importance of ORSA as a management tool. |

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| | | Pensions Authority (EIOPC) | | ■ EIOPA states that (i) ORSA process and outcomes should be used by the management or supervisory body in any strategic discussion and (ii) the development of ORSA should consider any expected stresses and include a forward-looking assessment of the soundness and sustainability of the business model. |
| | 14 | European Commission (EC) | 6 July | ■ **EC published a new strategy for sustainable finance** 'Strategy for financing the transition to a sustainable economy', which builds on the 'Action Plan: Financing Sustainable Growth' announced in March 2018.<br>■ The strategy identifies four main areas where additional actions are required so that the financial system can fully support the transition of the economy towards sustainability. Those areas are (i) Financing the transition to sustainability, (ii) Inclusiveness, (iii) Financial sector resilience and contribution and (iv) Global ambition.<br>■ Action plans have been set up for each of the four areas, which include the following.<br>➢ To identify insurance protection gaps through EIOPA's natural disaster dashboard.<br>➢ To propose amendments in the Solvency II Directive to consistently integrate sustainability risks in risk management of insurers.<br>➢ To ask EIOPA to assess the need to review the fiduciary duties of pension funds and investors to reflect sustainability impacts as part of investment decision making processes.<br>➢ To take action to improve the reliability and comparability of ESG ratings. |
| Americas | 15 | New York State Department of Financial Services (DFS) | 28 July | ■ **DFS issued a report on management of financial risks from climate change by insurers in New York.**<br>■ The report highlights good practices including the following.<br>➢ Leading insurers have designated appropriate committee(s) of the board and senior management function as responsible for climate risks.<br>➢ Leading insurers have established responsible investment or climate investment strategies that include active ownership, green bonds, and a comprehensive approach on ESG integration.<br>➢ Leading insurers developed frameworks for identifying, assessing, monitoring, managing, and reporting climate risks as part of their ERM programmes.<br>➢ Several insurers have set time-bound targets for investments and disclosed metrics. |

## Sources:


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15. New York State Department of Financial Services (DFS) 'SUPERINTENDENT LACEWELL ANNOUNCES NEW DFS REPORT ON NEW YORK DOMESTIC INSURERS' MANAGEMENT OF THE FINANCIAL RISKS FROM CLIMATE CHANGE'

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