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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	Financial Stability Board (FSB)	28 October 2021	■ **FSB sent its Chair's letter to G20 Leaders ahead of their October Summit**. Key messages delivered to the Leaders include the following. ➢ **Lessons learnt from Covid-19** include the importance of having operational risk management arrangements in place well in advance of any shock in terms of operational resilience, cyber threats and third-party relationships. FSB is working to address these risks. ➢ The markets for **crypto-assets** have evolved rapidly over the past year. FSB continues to monitor their implications for financial stability. ➢ Regarding **climate-related risks**, FSB will continue to assess the availability of data to monitor climate-related financial stability risks, fill data gaps and develop forward-looking metrics on the financial impacts of climate change. It will also monitor and assess climate-related financial vulnerabilities and promote consistent regulatory approaches to address climate-related risks at financial institutions.
	2	Financial Stability Board (FSB)	19 October 2021	■ **FSB published a report on cyber incident reporting**. The report explores ways of achieving further convergence in supervisory reporting on cyber incidents, identifying gaps in, e.g., the scope of cyber incident reporting, reporting thresholds, reporting timeframe and use of information reported among jurisdictions. ■ FSB will (i) develop best practices regarding a minimum set of types of information to be reported, (ii) identify common types of information to be shared across sectors and jurisdictions and (iii) create common terminologies for cyber incident reporting.
	3	Network of Central Banks and Supervisors for Greening the Financial System (NGFS)	19 October 2021	■ **NGFS published a progress report on climate scenario exercises** setting out how 31 NGFS members are using climate scenarios to identify, assess and understand risks in their economies and financial systems. Key findings presented in the report include the following. ➢ Approaches: top-down and bottom-up approaches are employed. Some respondents adopted a combination of both. ➢ Coverage: Banks are covered; other financial institutions, such as insurers, are covered in most

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

				exercises. In terms of risks, transition risk is captured in all but one respondent and around half of respondents focus on both physical and transition risks. ➢ Scenarios: Among NGFS scenarios, the most commonly used scenarios are current policies, delayed transition and net zero 2050. In some cases NGFS scenarios are adapted locally. ➢ Identified challenges include: translation of NGFS scenarios into a shock to a specific economy; capturing impacts of spill overs, such as feedbacks between climate change and financial sectors; risk transfers between sectors; uncertainty of projections due to a long time horizon; and data gaps.
	4	Financial Stability Board (FSB)	14 October 2021	■ **FSB published the following three documents on climate disclosures**: (i) 2021 Status Report 'Task Force on Climate-related Financial Disclosures'; (ii) Guidance on Metrics, Targets, and Transition Plans; and (iii) Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures. ➢ The '**Status Report'** describes that global momentum behind the TCFD's work has grown significantly over the past year and disclosures have progressed in the insurance sector. ➢ '**Guidance**' provides guidance on how the TCFD recommendations can be implemented effectively in terms of, in particular, how to set climate-related targets, what needs to be addressed in a transition plan and what information needs to be disclosed regarding financial impact. ➢ '**Implementing the Recommendations**' provides some updates on the 2017 TCFD implementation guidance. In particular, more information on metrics and targets is expected to be disclosed. This information includes: the extent to which insurance underwriting activities are aligned with a well below 2-degree scenario; Scope 1 and Scope 2 GHG emissions independent of a materiality assessment; Scope 3 GHG emissions (encouragement); and weighted average carbon intensity or GHG emissions associated with commercial property and specialty lines of business for insurers.
	5	Network of Central Banks and Supervisors for Greening the Financial System (NGFS)	8 October 2021	■ **NGFS published an interim report on biodiversity and financial stability**. The report has suggested the following four tasks for central banks and financial supervisors (hereinafter referred to as 'supervisors'), summarising the actions currently taken in several jurisdictions. ➢ Supervisors can begin to build the skills, capabilities, and tools to address biodiversity-related economic and financial risks.

				➢ Supervisors can assess the dependencies and impacts of financial institutions they supervise on ecosystem services and biodiversity. ➢ Supervisors can become more familiar with existing biodiversity-economy models and develop ad hoc methodological approaches such as developing biodiversity-related scenarios. ➢ Supervisors could signal to financial institutions they supervise, etc. the importance of understanding the risks arising from their dependencies and impacts on biodiversity.
Europe	6	European Insurance and Occupational Pensions Authority (EIOPA)	3 November 2021	■ **EIOPA expressed its commitment to support the insurance and pensions sectors' efforts to tackle climate change**, which covers the following. ➢ EIOPA will finalise the first European-wide dashboard on the natural catastrophe insurance protection gap in 2022. ➢ EIOPA expects the insurance industry to assess climate-related risks as part of ORSA. Insurers are to disclose how their activities contribute to the transition to an environmentally sustainable economy. ➢ Sustainable finance remains a strategic area of activity for EIOPA. EIOPA will work to integrate ESG risks in the prudential framework of insurers.
	7	U.K. Financial Conduct Authority (FCA)	3 November 2021	■ **FCA launched a consultation on Sustainability Disclosure Requirements (SDR) and investment labels**. This intends to contribute to the U.K. Government's initiative 'Greening Finance: A Roadmap to Sustainable Investing'. Comments that are received will inform policy proposals to be issued for consultation in Q2 2022. ■ The consultation document considers a three-tiered system which is comprised of (i) product labelling, (ii) consumer-facing disclosures and (iii) detailed disclosures for institutional investors, etc. ■ Regarding labelling, a potential approach to consider is to classify products into three categories, (a) sustainable, (b) responsible and (c) not promoted as sustainable. Then, the 'sustainable' category could be further divided into three sub-categories, (a-1) sustainable/impact, (a-2) sustainable/aligned and (a-3) sustainable/transitioning.
	8	U.K. Prudential Regulation Authority (PRA)	28 October 2021	■ **PRA published a report on climate-related financial risk management and the role of capital requirements**. Messages expressed in the report include the following. ➢ PRA will switch its supervisory approach on its climate-related supervisory expectations from one of assessing implementation to actively supervising against those expectations. Where progress is insufficient at financial institutions and remediation is needed, PRA will consider

				exercise of its powers and use of its wider supervisory tools, which might include the use of capital add-ons. ➢ Capital can be used to address the consequences, not the causes, of climate change. Over the coming year, PRA and Bank of England will undertake further analysis to explore enhancements to the regulatory capital frameworks.
Americas	9	Office of the Superintendent of Financial Institutions (OSFI)	9 November 2021	■ **OSFI released a draft of the Technology and Cyber Risk Management Guideline** for consultation. ■ The draft Guideline is comprised of the following five domains: (i) Governance and Risk Management; (ii) Technology Operations; (iii) Cyber Security; (iv) Third-Party Provider Technology and Cyber Risk; and (v) Technology Resilience. Detailed guidelines include the following. ➢ Federally regulated financial institutions (FRFIs) should establish a technology and cyber risk management framework (RMF). ➢ FRFIs should design, implement and maintain multi-layer, preventive cyber security controls and measures to safeguard their technology assets. ➢ FRFIs should establish and maintain an Enterprise Disaster Recovery Framework (EDRF) to support their ability to deliver technology services through disruption and operate within its risk tolerance.
Asia Pacific	10	Bank Negara Malaysia (BNM)	9 November 2021	■ **BNM released an exposure draft on Code of Conduct for Malaysia Wholesale Financial Markets** setting out proposed principles and standards to be observed by market participants. This is to update the Code of Conduct initially issued in 2017. ■ The proposed draft provides principles and standards on, e.g., eligibility requirements for dealers and brokers, responsibility to preserve a reputable, ethical and honest market place, and internal governance and controls. Market participants, including banks, insurers and investment banks, are required to uphold integrity and professionalism in the conduct of their business.
	11	Monetary Authority of Singapore (MAS)	9 November 2021	■ **MAS has updated its guidelines on corporate governance for financial institutions**. The Guidelines comprise the Principles and Provisions of the Code of Corporate Governance 2018 and Additional Guidelines. ■ Compliance with the Principles, which is already mandatory for listed financial institutions, is expected for some types of non-listed institutions, including Tier 1 insurers. Every financial institution is expected to observe the Provisions and the Additional Guidelines, variances from which need to be explained by institutions.

	12	Monetary Authority of Singapore (MAS)	5 November 2021	■ **MAS consulted on proposed amendments to the Notice on assets and liabilities exposures for insurers**. It proposed a set of additional information to be collected, which includes information on breakdowns of underlying assets of collective investment schemes, unique identifiers of assets, and ultimate parent and industry classification.

Sources:

1. FSB 'FSB Chair's letter to G20 Leaders: October 2021'
2. FSB 'Cyber Incident Reporting: Existing Approaches and Next Steps for Broader Convergence'
3. NGFS 'NGFS publishes the report "Scenarios in Action: a progress report on global supervisory and central bank climate scenario exercises"'
4. FSB '2021 Status Report: Task Force on Climate-related Financial Disclosures'
5. NGFS 'The joint Study Group on 'Biodiversity and Financial Stability' launched by NGFS and INSPIRE publishes an Interim Report'
6. EIOPA 'EIOPA commits to support the insurance and pensions sectors' efforts to tackle climate change'
7. FCA 'FCA acts to help investors make more informed ESG investment decisions'
8. PRA 'PRA Climate Change Adaptation Report 2021 - Climate-related financial risk management and the role of capital requirements'
9. OSFI 'OSFI Launches Consultation on Draft Guideline B-13'
10. BNM 'Exposure Draft on Code of Conduct for Malaysia Wholesale Financial Markets (2021 Review)'
11. MAS 'Guidelines on Corporate Governance'
12. MAS 'Consultation Paper on Proposed Changes to Notice 122 on Assets and Liabilities Exposures for Insurers and its Implementation'

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