Regulatory developments in the global insurance sector

Vol. 17 (November to December 2021)

Executive summary[1]

Region	No	Organisation(s)	Date	Regulatory developments
Global	1	International Organization of Securities Commissions (IOSCO)	23 November 2021	■ **IOSCO calls for oversight of ESG rating and data product providers**, finalising its 10 recommendations applicable to them. ■ **The recommendations address areas that can be improved** from the users' perspective, including: ➢ **reliability of raw ESG data**; ➢ **lack of transparency around ESG ratings methodology and ESG data products;** ➢ reliability of ESG ratings and data products and **potential conflicts of interest**; and ➢ communication between ESG ratings and data products providers and entities. ■ **Regulators**, where they have authority over ESG ratings and data products providers, **are expected to consider**, e.g., **requiring the provider to identify, disclose and mitigate potential conflicts of interest**.
	2	Basel Committee on Banking Supervision (BCBS)	16 November 2021	■ **BCBS published a draft of the principles for the effective management and supervision of climate-related financial risks for consultation**. ➢ **12 principles on the following seven areas are proposed for banks**: (i) corporate governance; (ii) internal control framework; (iii) capital and liquidity adequacy; (iv) risk management process; (v) management monitoring and reporting; (vi) comprehensive management of credit, market, liquidity, operational and other risks; and (vii) scenario analysis. Principles on scenario analysis are intended to be applied to large, internationally active banks, while others are supposed to be applied to all banks in a proportional manner. ➢ **Supervisors are expected to**, e.g., **determine soundness and comprehensiveness of banks' incorporation of material climate-related financial risks** into their business strategies, corporate governance and internal control frameworks.
Europe	3	European Insurance and Occupational	22 November 2021	■ **EIOPA published an annual report on the use of capital add-ons**. Key information in the report includes 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 17 report. It is advised that you refer to the respective original materials for accurate information.

		Pensions Authority (EIOPA)		➢ Seven supervisors set capital add-ons to nine solo insurers (3 life and 6 non-life) in 2020. ➢ The amount of capital add-ons imposed was less than 0.1% of the total SCR of all insurers using the standard formula in 2020. Nevertheless, the weight of the capital add-ons accounts for 25% of the total SCR of those on which capital add-ons were imposed in 2020.
	4	Federal Financial Supervisory Authority (BaFin)	19 November 2021	■ **BaFin has set 10 medium-term objectives for its supervisory activities**. Those objectives cover, for instance: resilience of the financial system; operational resilience of the financial institutions; money laundering prevention; consumer protection; and sustainability.
	5	HM Treasury	9 November 2021	■ **HM Treasury** (Future Regulatory Framework Review) **published Proposals for Reform of the financial services regulatory framework for consultation**. Key proposals include the following. ➢ The government **introduces the new growth and international competitiveness objective as a secondary objective of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA)**. ➢ The government **incorporates climate change into the regulatory principles**. ➢ The government **provides the regulators with the necessary additional powers to make rules relating to those matters currently in 'retained EU law'**.
Americas	6	National Association of Insurance Commissioners (NAIC)	16 November 2021	■ **NAIC expressed its views on how climate-related financial risks are addressed in the insurance sector in the U.S.** in response to the Federal Insurance Office's (FIO) request for information on that topic. Key messages in the response include the following. ➢ NAIC and state regulators have a long history of managing the economic consequences of climate-related events, and a strong foundation of solvency and consumer protection tools that incorporate climate risk as an essential element. ➢ NAIC and state regulators are confident the comprehensive approach they are taking will strengthen the insurance sector and help ensure policyholders are better protected.
	7	New York Department of Financial Services (NYDFS)	15 November 2021	■ **NYDFS finalised its guidance on managing the financial risks from climate change** for New York domestic insurers. NYDFS's supervisory expectations expressed in the guidance include the following. ➢ An insurer **integrates the consideration of climate risks into its governance structure**. ➢ An insurer considers the current and **forward-looking impact of climate-related factors** when making business decisions. ➢ An insurer **incorporates climate risks into its financial risk management**. Climate risks are

				considered in an insurer's ORSA. ➢ An insurer **uses scenario analysis to inform business strategies and risk assessment**. ➢ An insurer discloses its climate risks utilising TCFD or other approaches.
	8	The White House	11 November 2021	■ **The President of the United States signed into law the 'Secure Equipment Act of 2021'**. The Act requires the Federal Communications Commission to adopt rules clarifying that it will **no longer review or approve any authorisation application for equipment that poses an unacceptable risk to national security**.
Asia Pacific	9	Australian Prudential Regulation Authority (APRA)	2 December 2021	■ **APRA launched a consultation on new prudential standards on (i) financial contingency planning and (ii) resolution planning for APRA-regulated financial institutions**. These standards are expected to become effective in January 2024. ➢ **Financial contingency planning** would be required for all financial institutions to recover their financial resilience and to manage their own exit from the industry while remaining solvent and viable. A financial contingency plan is supposed to have in place, e.g., a trigger framework, recovery/exit options, and scenario analysis to assess effectiveness of those options. ➢ **Resolution planning** would be targeted at larger/more complex entities and those that provide critical functions to the economy. Targeted financial institutions would be required to, e.g., assess feasibility of resolution options, identify barriers to APRA's resolution plan, and implement pre-positioning steps necessary for the execution of the resolution plans. **Loss-absorbing capacity (LAC) could be required for insurers** as well as banks.
	10	Australian Prudential Regulation Authority (APRA)	26 November 2021	■ **APRA finalised its prudential practice guide on climate change financial risks**. The guide is comprised of four elements: (i) governance; (ii) risk management; (iii) scenario analysis; and (iv) disclosures. APRA's expectations for financial institutions include the following. ➢ On **governance,** the board is likely to ensure that, where climate risks are material, the institution's risk appetite framework incorporates the risk exposure limits and thresholds for financial risks. ➢ On **risk management,** a financial institution may wish to set climate-related targets that are linked to its climate-related metrics and aligned to its overall business strategy and risk management framework. ➢ On **scenario analysis,** material results from the scenario analysis should be communicated to the institution's board and used to inform business planning and strategy setting.

	11	Australian Prudential Regulation Authority (APRA)	23 November 2021	■ **APRA has encouraged boards of financial institutions to play a more active role to ensure cyber resilience** based on the findings from surveys it conducted. ■ Boards are expected to be more proactive in (i) reviewing and **challenging information reported on cyber resilience**, (ii) ensuring **recovery from high-impact cyber attacks** and (iii) ensuring **the effectiveness of the supply chain's information security controls**.
	12	Association of Southeast Asian Nations (ASEAN)	10 November 2021	■ **ASEAN Taxonomy Board developed the ASEAN Taxonomy for Sustainable Finance (version 1)**. The taxonomy is supposed to serve as a common building block that enables an orderly transition and fosters sustainable finance adoption by ASEAN member states. ➢ The taxonomy is comprised of (i) the **Foundation Framework**, under which activities are classified into three categories based on qualitative assessments, and (ii) the **Plus Standard** that sets activity-level criteria and thresholds to determine whether activities are taxonomy-aligned. ➢ For the version 1 of the taxonomy, (i) **climate change mitigation is set as the primary objective** and (ii) the Plus Standard **initially focuses on several major sectors**, including agriculture, electricity and manufacturing.

Sources:

1. IOSCO 'IOSCO calls for oversight of ESG Ratings and Data Product Providers' (23 November)
2. BCBS 'Principles for the effective management and supervision of climate-related financial risks' (16 November)
3. EIOPA 'EIOPA publishes annual report on the use of capital add-ons during 2020 under Solvency II' (22 November)
4. BaFin 'BaFin sets medium-term objectives for its supervisory activities' (19 November)
5. HM Treasury 'Future Regulatory Framework (FRF) Review: Proposals for Reform' (9 November)
6. NAIC 'NAIC Responds to FIO Request for Information on Climate-Related Financial Risks' (16 November)
7. NYDFS 'ACTING SUPERINTENDENT ADRIENNE A. HARRIS ANNOUNCES DFS ISSUES FINAL GUIDANCE TO NEW YORK DOMESTIC INSURERS ON MANAGING THE FINANCIAL RISKS FROM CLIMATE CHANGE' (15 November)
8. The White House 'Bill Signed: H.R. 3919' (11 November)
9. APRA 'APRA moves to strengthen crisis preparedness in banking, insurance and superannuation' (2 December)
10. APRA 'APRA finalises prudential guidance on managing the financial risks of climate change' (26 November)
11. APRA 'Improving cyber resilience: the role boards have to play' (23 November)
12. ASEAN 'ASEAN Sectoral Bodies Release ASEAN Taxonomy for Sustainable Finance – Version 1' (10 November)

Contact:

Shinya Kobayashi
Managing Director
Financial Services
Risk Advisory
Deloitte Touche Tohmatsu LLC

Member of
Deloitte Touche Tohmatsu Limited