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# Regulatory developments in the global insurance sector

## Vol. 18 (December 2021 to January 2022)

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## Executive summary[1]

| Region | No | Organisation(s) | Date | Regulatory developments |
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| Global | 1 | World Economic Forum (WEF) | 11 January 2022 | ■ **WEF published 'Global Risks Report 2022'**. The report presents the results from the Global Risks Perception Survey.<br>■ According to the survey results, the top risk that will become a critical threat to the world within 2 years is '**extreme weather**'. '**Climate action failure**' is ranked 3rd, '**cyber security failure**' is 7th and '**digital inequality**' is 9th.<br>■ Other key messages in the report include the following.<br>➢ It is likely that any transition to achieve 'net zero by 2050' will be disorderly. A transition that fails to account for societal implications will exacerbate inequalities.<br>➢ Lower barriers to cyber threat actors, a dearth of cyber security specialists and patchwork governance, etc. are aggravating cyber risks.<br>➢ Further risk mitigation efforts can be taken in the areas of, e.g., 'artificial intelligence' and 'cross-border cyber attacks'. |
| Europe | 2 | U.K. Prudential Regulation Authority (PRA) | 12 January 2022 | ■ **PRA identified 6 top priority areas for insurance supervision in 2022**, including (i) financial resilience, (ii) operational risk and resilience and (iii) financial risks arising from climate change. Outlines of these three priorities are as follows.<br>➢ **Financial resilience**: Some life insurers have been underwriting long-term annuity businesses by backing their liabilities with a greater proportion of riskier assets, which could increase risks. Both life and general insurers are expected to consider potential impacts of general and social inflation on their financial resilience.<br>➢ **Operational risk and resilience**: Insurers are expected to develop their controls and capabilities to manage increasing risks of cyber threats.<br>➢ **Financial risks arising from climate change**: PRA will incorporate supervision of the financial risks posed by climate change into its core supervisory approach. The assessment of an insurer's management of climate-related financial risks will be included in all relevant elements of the |

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

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| | | | | supervisory cycle. |
| | 3 | European Insurance and Occupational Pensions Authority (EIOPA) | 20 December 2021 | ■ **EIOPA updated its guidelines on Legal Entity Identifier** (LEI). The revised guidelines will become effective in July 2022.<br>■ One of the main updates was to make clear the scope of entities that are required to have a LEI. It was clarified that insurers, ultimate parent companies, EEA branches of insurers from third countries and insurance intermediaries carrying out cross-border businesses are in the scope.<br>■ The guidelines do not stipulate how a LEI should be used, which would be addressed in legislations to be developed. |
| | 4 | U.K. Financial Conduct Authority (FCA) | 17 December 2021 | ■ **FCA finalised rules and guidance on disclosures of climate-related risks and opportunities for** (i) standard listed companies and (ii) **asset managers and life insurers**, etc., respectively. The rules and guidance will become effective in January 2022 for large firms and one year later for others.<br>■ Outlines of the rules and guidance for asset managers and life insurers, etc. are as follows.<br>➢ Scope: In case of insurers, those who provide insurance-based investment products, etc.<br>➢ Disclosures: **A firm publishes climate-related reports (TCFD entity report and TCFD product report) that are in line with TCFD recommendations on an annual basis**.<br>➢ TCFD entity report: A firm explains, for example, its approach to climate-related scenario analysis and any targets to manage climate-related risks and opportunities.<br>➢ TCFD product report: A firm discloses information on, for instance, GHG emissions (Scope 1 to 3) and weighted average carbon intensity and, as far as reasonably practicable, climate VaR and implied temperature rise. |
| | 5 | European Insurance and Occupational Pensions Authority (EIOPA) | 16 December 2021 | ■ **EIOPA published the results of its 5th insurance stress test** conducted in 2021. The objective of the stress test was to assess resilience of the insurance sector in EU from the perspectives of capital and liquidity, respectively.<br>■ Major findings include the following.<br>➢ Capital: 9 insurers' post-stress Solvency Ratio drops below 100% under the fixed balance sheet approach. Among the 9 insurers, 7 applied reactive management actions, which resulted in a ratio above 100%. **Without the long-term guarantees and transitional measures, 31 insurers in the fixed balance sheet and 27 in the constrained balance sheet fall under a solvency ratio of 100%**. |

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| | | | | ➢ Liquidity: The liquidity position is less of a concern for the insurance sector in EU. For example, the large amount of liquid assets held by insurers is able to compensate the cash outflow in the mass lapse shock. |
| | 6 | European Insurance and Occupational Pensions Authority (EIOPA) | 13 December 2021 | ■ **EIOPA released 'Financial Stability Report (December 2021)'**. Key messages in the report include the following.<br>➢ Unanticipated inflation could be a significant source of risk for non-life insurers due to potential coverage of claims in real terms and positive duration gaps.<br>➢ Insurers could be vulnerable to sovereign bonds' price volatility and negatively impacted by an increase in credit spreads of sovereign bonds.<br>➢ While cyber risk has become one of the most important risks for the insurance sector in Europe, understanding of it remains limited. Moreover, ESG risks remain the top risk and digitalisation risks are expected to increase. |
| | 7 | European Insurance and Occupational Pensions Authority (EIOPA) | 10 December 2021 | ■ **EIOPA published its draft of the application guidance on climate change risk scenarios in the ORSA** for consultation.<br>■ The draft guidance does not provide binding materials; rather it illustrates examples on how to conduct materiality assessments and run climate change scenario analyses. The draft also listed issues to be considered, which include the following.<br>➢ Granularity of scenario analysis: Too detailed analyses might not fit for the purpose, considering uncertainties associated with those analyses. Also, it would be a challenge to find the right tools/data that support granular analyses.<br>➢ Availability of tools: Getting access to the right tools/data remains a challenge.<br>➢ Predefined parameters versus own parameters: Both have pros/cons. |
| | 8 | U.K. Financial Conduct Authority (FCA) | 7 December 2021 | ■ **FCA published draft rules for consumer protection 'Consumer Duty'** for consultation. New rules are expected to be finalised by July 2022. Outlines of the draft rules are as follows.<br>➢ Nature: **The Consumer Duty sets the standard of care that firms give to consumers in retail financial markets**.<br>➢ Scope: The Consumer Duty applies to products and services offered to 'retail customers'. In case of insurance, reinsurance or contracts of large risk sold to commercial customers are out of the scope. |

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| | | | | ➢ Structure: The Consumer Duty comprises (i) a Consumer Principle, (ii) cross-cutting rules and (iii) 4 outcomes.<br>• **Consumer Principle: Firms are required to act to deliver good outcomes for retail customers**.<br>• Cross-cutting rules: Firms are required to (i) act in good faith towards retail customers, (ii) avoid foreseeable harm to retail customers and (iii) enable and support retail customers to pursue their financial objectives. |
| | 9 | European Insurance and Occupational Pensions Authority (EIOPA) | 7 December 2021 | ■ **EIOPA has launched a voluntary pilot exercise on climate change adaptation in non-life underwriting and pricing**. Its background and objectives are as follows.<br>➢ Background: Climate-related adaptation measures that reduce policyholders' physical risk exposures and insured losses can be a key to maintaining availability and affordability of non-life insurance products.<br>➢ Objectives: To better understand how insurers integrate adaptation measures in products and to assess the appropriateness of the prudential treatment of adaptation measures under Solvency II. |
| | 10 | European Insurance and Occupational Pensions Authority (EIOPA) | 7 December 2021 | ■ **EIOPA published 7 priorities to address sustainability risks from 2022 to 2024**. Those priorities include the following.<br>➢ **Integrate ESG risks in the prudential framework of insurers**: EIOPA will deepen its analysis of the treatment of natural catastrophe liabilities under Pillar 1, investments associated with environmental and/or social objectives and climate-resilient insurance products, etc.<br>➢ **Promote sustainability disclosures** and sustainable conduct of businesses: EIOPA will engage in providing further guidance on sustainability-related disclosures and reporting.<br>➢ **Promote the use of open-source modelling and data**: EIOPA aims to support the modelling and management of climate risks by positioning it as a relevant open-source data hub. |
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| Asia Pacific | 11 | Bank Negara Malaysia (BNM) | 4 January 2022 | ■ **BNM issued a discussion paper on licensing framework for digital insurers and takaful operators**. Key elements of the proposed framework include the following.<br>➢ Expectations: Licensing of DITOs is expected to complement existing players to address protection gaps in Malaysia through, e.g., increasing penetration among lower-income segments, expanding protection to ageing populations and providing protection against emerging risks such as cyber threats.<br>➢ Entry requirements: Digital insurers and takaful operators (DITOs) are required to demonstrate a commitment in driving value propositions for Malaysia in a sustainable manner in terms of (i) inclusion, (ii) competition and (iii) efficiency.<br>➢ Business models: Only digital players will need to be licensed as DITOs. Licensing of DITOs may include digital players which offer risk-sharing protection schemes. |
| | 12 | Australian Prudential Regulation Authority (APRA) | 13 December 2021 | ■ **APRA proposes changes to align capital and reporting frameworks for insurance with AASB 17** which is supposed to become effective in January 2023. Proposed changes include, but are not limited to, the following.<br>➢ Capital framework: General insurers continue to apply the existing requirements on risk margin and discount rates. Life insurers continue to use the existing valuation approach rather than the AASB 17 approach to calculate risk free best estimate liabilities (RFBEL).<br>➢ LAGIC (Life and General Insurance Capital Standards): Both life and general insurers are required to adopt APRA's standard method for calculating regulatory capital, and not to use internal capital models. |

## Sources:


1. World Economic Forum ''Global Risk Report 2022'
2. PRA 'Letter from Anna Sweeney and Charlotte Gerken 'Insurance Supervision: 2022 priorities''
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4. FCA 'FCA's new rules on climate-related disclosures to help investors, clients and consumers'
5. EIOPA 'EIOPA insurance stress test shows industry resilience but also reliance on transitional measures'
6. EIOPA 'EIOPA highlights key risks for the insurance and pension sectors'
7. EIOPA 'EIOPA consults on the application guidance on climate change risk scenarios in the ORSA'
8. FCA 'FCA to introduce new Consumer Duty to drive a fundamental shift in industry mindset'
9. EIOPA 'Pilot Exercise on Climate Change Adaptation in Non-Life Underwriting and Pricing'
10. EIOPA 'Sustainable finance activities 2022-2024'
11. BNM 'Discussion Paper on Licensing Framework for Digital Insurers and Takaful Operators'
12. APRA 'APRA proposes changes to align capital and reporting frameworks for insurance with AASB 17'

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