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)	9 December 2022	■ **The FSB decided to discontinue its annual identification of global systemically important insurers (G-SIIs)**. The messages expressed by the FSB include the following. ➢ The IAIS will continue its annual data collection from individual insurers to assess systemic risk in the global insurance sector. ➢ The FSB will publish on its website every year a list of insurers that are subject to resolution planning and resolvability assessments. ➢ The FSB will review its experiences with the process of assessing and mitigating systemic risk based on the IAIS's Holistic Framework in November 2025.
	2	International Association of Insurance Supervisors (IAIS)	18 November 2022	■ **The IAIS finalised liquidity metrics as an ancillary indicator for its Global Monitoring Exercise (GME)**. The liquidity metrics serve as a tool to facilitate the IAIS's monitoring of the insurance industry's liquidity risk as well as insurers' liquidity exposures from a macroprudential perspective. Major characteristics of the metrics include the following. ➢ The IAIS developed two types of metrics: Exposure Approach (EA) and Company Projection Approach (CPA). ➢ For both approaches, a one-year time horizon is chosen as a main time horizon and a three-month time horizon as a supplementary time horizon. ➢ Under the EA, the liquidity ratio is calculated as liquidity sources divided by liquidity needs. Specified factors are applied to balance sheet items and off-balance sheet exposures that constitute the denominator and the numerator. ■ The metrics are supposed to be subject to review in, for example, 2025.
	3	Financial Stability Board (FSB)	15 November 2022	■ **The FSB issued a report titled 'Climate Scenario Analysis by Jurisdictions: Initial findings and lessons,'** which was jointly authored with the Network for Greening the Financial System (NGFS). Key messages from this report include the following. ➢ A majority of financial authorities have used or adapted the NGFS scenarios. Although most jurisdictions emphasise the importance of ensuring comparability across different exercises, they also point to the need to tailor the analysis to specific objectives.

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

				➢ Many jurisdictions consider that exposures and vulnerabilities measured are likely understated as, for example, second-round effects and potential climate non-linearities are not captured by the metrics. ➢ Data gaps remain a key challenge for climate scenario analysis.
Europe	4	European Insurance and Occupational Pensions Authority (EIOPA)	5 December 2022	■ **The EIOPA released its first dashboard that presents the drivers of a climate-related insurance protection gap**. ■ This dashboard provides two views of the protection gap: (i) the Current Protection Gap estimated for five perils (i.e., coastal floods, earthquakes, floods, wildfires and windstorms) and (ii) the Historical Protection Gap from 1980 to 2021. With regard to the Current Protection Gap, identified protection gaps include the following. ➢ The lowest current protection gap is observed for windstorms. ➢ The Netherlands shows the highest protection gap for coastal floods. As to wildfires, Portugal and Greece have the highest protection gap. ➢ On a country basis, Greece and Italy are countries that have the highest total current insurance protection gap score.
	5	European Council (EC)	28 November 2022	■ **The EC adopted the Digital Operational Resilience Act (DORA)**. This regulation stipulates requirements concerning the security of network and information systems that support the business processes of financial institutions. These include requirements on, for example: ➢ information and communication technology (ICT) risk management; ➢ reporting of major ICT-related incidents and notifying significant cyber threats; ➢ digital operational resilience testing; and ➢ measures for the sound management of ICT third-party risks. ■ Financial institutions are expected to take action to strengthen their digital operational resilience.
	6	European Insurance and Occupational Pensions Authority (EIOPA)	24 November 2022	■ **The EIOPA published a discussion paper on the methodological principles for insurance stress testing of cyber risks**. ■ The objective of this paper is to set the ground for an assessment of insurers' cyber resilience, focusing mainly on the financial consequences of cyber events. This paper addresses the following two main aspects. ➢ **Cyber resilience**: Insurers' capability of sustaining the financial impact of an adverse cyber event.

				➢ **Cyber underwriting**: Insurers' capability of sustaining the financial impact as a consequence of a cyber event that can lead to an increase in claims. ■ The selected five scenarios are: (i) data centre/infrastructure damage (cloud outage); (ii) ransomware; (iii) denial of service (DoS); (iv) data breach; and (v) power outage.
	7	European Supervisory Authorities (ESAs)	15 November 2022	■ The ESAs (i.e., European Banking Authority, EIOPA and ESMA) published a Call for Evidence on greenwashing to provide information on greenwashing risks and concerns in the EU financial sector to the European Commission (EC). The ESAs have asked for information on: ➢ (i) various stakeholders' views on their understanding of greenwashing and the main drivers of greenwashing; ➢ (ii) examples of potential greenwashing practices; and ➢ (iii) data that can help measure the scale of greenwashing and identify areas of high greenwashing risk. ■ The ESAs will submit a progress report by May 2023 and a final report by May 2024, respectively, to the EC.
Americas	-	-	-	-
Asia Pacific	8	Australian Prudential Regulation Authority (APRA)	8 December 2022	■ **The APRA, together with the Australian Securities and Investments Commission (ASIC), issued a joint letter to life insurers regarding inappropriate premium increases in the life insurance industry**. ■ In the letter, the two authorities expressed their concerns that some life insurers: ➢ (i) have not appropriately applied premium increases to retail insurance policies (particularly level premium policies) in accordance with the policy terms; and ➢ (ii) have not acted in accordance with the reasonable expectations created through the relevant disclosure and marketing materials. ■ All life insurers are requested to review past (i) premium increases and (ii) disclosure and marketing materials related to retail life insurance policies and report the results to the ASIC by the end of March 2023.
	9	Bank Negara Malaysia (BNM)	2 December 2022	■ **The BNM published a policy document that sets out principles and requirements on climate risk management and scenario analysis for financial institutions**. These principles cover governance, strategy, risk appetite, risk management, scenario analysis and disclosures, which include the following.

				➢ Governance: The board shall exercise effective oversight of climate-related risks. ➢ Strategy: Financial institutions shall incorporate the potential impact of material climate-related risks into their business strategies. ➢ Scenario analysis: Financial institutions must employ scenario analysis to determine the resilience of their business strategies to material climate-related risks.
	10	Australian Prudential Regulation Authority (APRA)	1 December 2022	■ **The APRA finalised its prudential standards on recovery and exit planning**. These standards will be applied to banks and insurers from January 2024. Key requirements include the following. ➢ Financial institutions must develop and maintain a recovery and exit plan that demonstrates how (i) actions can be taken to recover their financial resilience and (ii) its orderly and solvent exit from regulated activity is ensured. ➢ A financial institution's recovery and exit plan must include, for example, (i) a trigger framework for the early identification of stress, (ii) governance arrangements for the timely activation of this plan and (iii) specific actions and credible recovery/exit actions. ➢ A recovery and exit action in the plan of a significant financial institution (SFI) must include, for example, (i) a timeline for the implementation of the action, (ii) analysis of any barriers to implementation and execution risks and (iii) an estimate of the impact of the action on the capital and liquidity position of the institution.
	11	Australian Prudential Regulation Authority (APRA)	30 November 2022	■ **The APRA published a report that summarises the results of its Climate Vulnerability Assessment (CVA),** which was performed from 2021 to 2022 against five of the largest banks in Australia. ■ Two NGFS scenarios were used for this analysis: (i) a Delayed Transition scenario and (ii) a Current Policies scenario. Major findings from the CVA include the following. ➢ Climate scenario analysis showed a measurable impact on lending losses, but the participating banks are likely to be able to absorb these impacts. ➢ The banks' response to the increasing climate risks under these scenarios include adjusting their risk appetite by, for instance, tightening loan-to-value ratio limits on new mortgage loans and reducing lending to specific regions and industry sectors. ■ The APRA will consider how the experience obtained from the CVA may be applied to similar activities in other sectors, including insurance.
	12	Indian Department of Financial	29 November	■ **The IDFS proposed to update the Insurance Act that enables insurers to conduct both life and non-life insurance businesses as a single entity**. Proposed amendments include the following.

		Services (IDFS)	2022	➢ Every application to register one or more classes of insurance business (i.e., life, non-life and health) shall be made in accordance with regulations. ➢ An insurer may provide services related or incidental to an insurance business and also distribute other financial products. ➢ Where the insurer conducts business of more than one class of insurance business, the insurer shall keep a separate account of all receipts and payments in respect to each such class.
	13	Monetary Authority of Singapore (MAS)	4 November 2022	■ **The MAS proposed to introduce a policy to (i) regulate the conduct of non-insurance businesses by insurers and (ii) strengthen MAS's oversight of insurers' outsourcing arrangements**. ■ The objective of setting requirements on what type of businesses insurers may conduct is to ensure that insurers remain focused on their core insurance business and avoid potential contagion from conducting non-insurance businesses. The type of businesses insurers may engage in are: ➢ the insurance business; ➢ any business that is incidental to the insurance business; ➢ any other business that MAS may prescribe or specify; and ➢ any other business that MAS may approve. ■ With regard to outsourcing arrangements, insurers are required, for instance, to conduct due diligence on an ongoing basis to evaluate the ability of the service provider before entering into an outsourcing arrangement with them.

Sources:

1. FSB ‘The FSB endorses an improved framework for the assessment and mitigation of systemic risk in the insurance sector and discontinues annual identification of global systemically important insurers (G-SIIs)’
2. IAIS ‘IAIS finalises liquidity metrics as an ancillary indicator for its Global Monitoring Exercise’
3. FSB ‘Climate Scenario Analysis by Jurisdictions: Initial findings and lessons’
4. EIOPA ‘EIOPA’s dashboard identifies the European natural catastrophe insurance protection gap’
5. European Council ‘Digital finance: Council adopts Digital Operational Resilience Act’
6. EIOPA ‘EIOPA consults on cyber component in its insurance stress testing framework’
7. EIOPA ‘ESAs launch joint Call for Evidence on greenwashing’
8. APRA ‘APRA and ASIC release joint letter on premium increases in the life insurance industry’
9. BNM ‘Policy Document on Climate Risk Management and Scenario Analysis’
10. APRA ‘APRA releases final prudential standard on recovery and exit planning’
11. APRA ‘APRA releases results of inaugural Climate Vulnerability Assessment’
12. Department of Financial Services ‘The Insurance Laws (Amendment) Bill, 2022: Submit your feedback’
13. MAS ‘Consultation Paper on Amendments to the Insurance Act and the Insurance (Intermediaries) Regulations’

Contact:

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