Regulatory developments in the global insurance sector

Vol. 30 (December 2022 to January 2023)

Executive summary[1]

Region	No	Organisation(s)	Date	Regulatory developments
Global	1	International Association of Insurance Supervisors (IAIS)	11 January 2023	■ **The IAIS published its 2023-2024 roadmap**. Key projects and activities presented include the following. ➢ **Consultation on the ICS as a PCR**, including consultation on GAAP Plus and other methods of calculating the ICS capital requirement (such as internal models and treatment of infrastructure/strategic equity) in Q3 2023 ➢ **Consultation on changes to certain ICP guidance with regard to climate risks** as well as supporting materials in Q4 2023 ➢ **Publication of the Issues Paper on Insurance Sector Operational Resilience** in Q2 2023
	2	Basel Committee on Banking Supervision (BCBS)	16 December 2022	■ **The BCBS finalised its standards on the prudential treatment of cryptoasset exposures**. Major elements include the following. ➢ Cryptoassets are classified into two groups: those that meet the classification conditions in full (Group 1) and others (Group 2). ➢ Group 1 cryptoassets are further classified into tokenised traditional assets (Group 1a) and stablecoins (Group 1b). Group 2 cryptoassets are also further classified into Group 2a, which meet hedging recognition criteria, and Group 2b. ➢ The capital treatment for Group 1 cryptoassets is generally based on the existing Basel Framework. A risk weight of 1250% is applied to Group 2b assets.
Europe	3	U.K. Prudential Regulation Authority (PRA)	10 January 2023	■ **The PRA announced its priorities for the supervision of insurers in 2023**. Those priorities include the following. ➢ **Risk management**: Insurers are expected to manage risks associated with bulk purchase annuity (BPA) deals, which are increasing across a number of life insurers. ➢ **Reinsurance**: The PRA is wary of the continued high level of longevity reinsurance and the emergence of 'funded reinsurance', which reduces the protection of policyholders. The PRA will consider the necessity of policy action on reinsurance structures.

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

				➢ **Operational resilience**: Insurers will need to demonstrate their ability to operate within impact tolerances over the next three years.
	4	European Insurance and Occupational Pensions Authority (EIOPA)	22 December 2022	■ **The EIOPA published its statement on inflation** to support year-end Solvency II calculations. Key messages include the following. ➢ Technical provisions: Insurers should ensure that inflation is adequately considered in calculations of technical provisions. ➢ SCR: Insurers using the standard formula should assess whether the SCR calculation does not significantly deviate from their risk profile. ➢ All relevant actions taken by insurers should be properly reflected in their ORSA.
	5	European Insurance and Occupational Pensions Authority (EIOPA)	15 December 2022	■ **The EIOPA released its December 2022 Financial Stability Report**. Key messages include the following. ➢ **The inflationary and higher interest environment can be transmitted to insurers through the following five channels**: (i) claims and expenses inflation; (ii) policyholders' lower purchasing power; (iii) decrease in the volume of new business and increase in surrenders; (iv) increase in the excess of assets over liabilities due to higher discount rates; and (v) increase in liquidity risk. ➢ **Life insurers have offloaded liability portfolios with higher guaranteed rates** to improve capital efficiency. Portfolio buyers, sometimes backed by private equity funds, benefit from acquiring life insurance portfolios.
	6	Swiss Financial Market Supervisory Authority (FINMA)	13 December 2022	■ **The FINMA published a circular on operational risks and resilience for banks**. Major requirements include the following. ➢ **ICT risk management**: Banks keep one or more inventories of ICT assets and have procedures, processes, and controls in place for dealing with significant ICT incidents. ➢ **Cyber risk management**: Banks conduct vulnerability assessments and penetration tests regularly. ➢ **Operational resilience**: Banks identify their critical functions and their tolerance for disruption, which are subject to approval by the Board. The Board approves and monitors the approach for ensuring operational resilience.
	7	European Insurance and	13 December	■ **The EIOPA performed its first climate stress test of European Institutions for Occupational Retirement Provisions (IORPs)**, focusing on IORPs' asset portfolios under a scenario based on the

		Occupational Pensions Authority (EIOPA)	2022	NGFS's disorderly transition scenario. Major findings include the following. ➢ Around 13% of the assets, equivalent to 255 million euro, will be lost, which indicates that IORPs have a non-negligible exposure to transition risks. ➢ Only 14% of IORPs use environmental stress testing in their own risk management, while more than 90% of IORPs consider ESG factors in determining their investment policy.
	8	European Banking Authority (EBA)	13 December 2022	■ **The EBA published its roadmap on sustainable finance and ESG risks**. Concrete work plans include the following. ➢ Pillar III disclosures: The EBA continues to develop disclosure templates on ESG risks. ➢ Prudential treatment of exposures under Pillar I: The EBA will finalise its assessment of whether a prudential treatment of exposures associated with environmental/social impacts can be justified. ➢ Stress testing: The EBA, together with the EIOPA and the ESMA, will develop joint guidelines for supervisory ESG stress testing, starting with climate risk.
	9	U.K. HMT	9 December 2022	■ **HMT published a consultation paper that sets out the U.K. Government's plan to revoke the PRIIPs Regulation and propose an alternative framework for retail disclosure** as part of its 'Edinburgh Reform'. ➢ Major concerns regarding the PRIIPS Regulation include (i) highly prescriptive format requirements of the KID, (ii) feasibility of providing for single format comparability across a variety of products and (iii) performance scenarios and summary risk indicators in the KID that can be misleading. ➢ The proposed new framework is guided by the following three principles: (i) ensuring that retail investors have access to clear and useful information; (ii) ensuring that disclosure is proportionate to the risk of products; and (iii) reducing burdens for financial institutions.
Americas	10	U.S. Financial Stability Oversight Council (FSOC)	16 December 2022	■ **The FSOC released its 2022 annual report, in which the FSOC identified 14 specific financial vulnerabilities** and provided recommendations to mitigate those vulnerabilities. Those vulnerabilities and recommendations include the following. ➢ Financial market structure: Three vulnerabilities associated with financial market structures, i.e., treasury markets, alternative reference rates and the provision of financial services by nonbank financial institutions, are identified. The FSOC recommends ensuring that the same activity with

				the same risk has the same regulatory outcome. ➢ Operational/technology risk: Cybersecurity and the dependency on a limited number of third-party service providers are identified as a vulnerability. The FSOC encourages that additional efforts be made to mitigate the financial stability risks associated with cybersecurity. ➢ Climate-related financial risk: Climate-related financial risks may lead financial institutions to pull back from credit or insurance provisions. The FSOC supports its members' continued efforts to address climate-related risks.
Asia Pacific	-	-	-	-

Sources:

1. IAIS ‘IAIS 2023-2024 Roadmap outlines two-year workplan addressing key risks and trends in the insurance sector’
2. BCBS ‘Prudential treatment of cryptoasset exposures’
3. PRA ‘Letter from Charlotte Gerken and Shoib Khan ‘Insurance Supervision: 2023 priorities’’
4. EIOPA ‘EIOPA publishes supervisory statement on inflation’
5. EIOPA ‘Financial Stability Report December 2022’
6. FINMA ‘FINMA publishes Circular “Operational risks and resilience – banks”’
7. EIOPA ‘EIOPA’s first IORPs climate stress test shows material exposure to transition risks’
8. EBA ‘The EBA publishes its roadmap on sustainable finance’
9. HMT ‘PRIIPs and UK Retail Disclosure’
10. FSOC ‘Financial Stability Oversight Council Releases 2022 Annual Report’

Contact:

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