



Regulatory developments in the global insurance sector

Vol. 32 (February to March 2023)



Executive summary¹

Region	No	Organisation(s)	Date	Regulatory developments
Global	1	International Association of Insurance Supervisors (IAIS)	9 March 2023	<p>n The IAIS finalised criteria that will be used to assess whether the Aggregation Method (AM) provides comparable outcomes to the Insurance Capital Standard (ICS). The criteria describe general viewpoints for comparisons between the AM and the ICS, including the following.</p> <ul style="list-style-type: none"> ∅ The ICS and the AM results are significantly correlated, changing similarly in response to changing economic and financial market conditions over the business cycle. ∅ The AM triggers supervisory action on group capital adequacy grounds under similar conditions over the business cycle as the ICS shows that the level of solvency protection of the two methods is similar in totality.
Europe	2	Financial Stability Board (FSB)	20 February 2023	<p>n The FSB presented work priorities for 2023. These priorities include the following.</p> <ul style="list-style-type: none"> ∅ Non-bank financial intermediation (NBFI): Key items that are subject to due consideration include (i) connectedness of non-financial trading firms in commodity markets with the core financial market participants and their leveraging activities, (ii) use of derivatives used to take leveraged positions that are not easy to see in typical balance sheet measures of leverage and (iii) liquidity mismatch in open-ended funds. ∅ Crypto-assets and decentralised finance (DeFi): The FSB will finalise its recommendations for the regulation of crypto-assets and markets and also examine whether additional policy recommendations are needed to address issues related to DeFi. ∅ Cyber and operational resilience: The FSB will issue a consultation paper aimed at strengthening financial institutions' ability to manage third-party and outsourcing risks.
	3	European Central Bank (ECB)	15 February 2023	<p>n The ECB published the results of a survey conducted among 105 large banks to assess the status of their digital transformation. Major findings include the following.</p> <ul style="list-style-type: none"> ∅ The majority of banks have started to develop digital transformation strategies. Most of the banks however face challenges in developing KPIs to monitor digital progress and quantify the impact of digital transformation on their profitability. ∅ Banks recognise the importance of setting the right tone at the top to steer digital strategies and

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

				<p>to increase IT/digital skills. To implement their digital transformation strategies, banks prefer to cooperate with external partners.</p> <ul style="list-style-type: none"> ∅ Banks identify key risks and challenges associated with digital transformation, such as cyber risks, increased third-party dependency and AML/fraud risks.
	4	European Systemic Risk Board (ESRB)	14 February 2023	<p>n The ESRB published a report on macroprudential tools for cyber resilience. The report presents three key areas of focus, which are as follows.</p> <ul style="list-style-type: none"> ∅ Authorities are encouraged to use the Cyber Resilience Scenario Testing (CyRST) approach described in the report to pilot system-wide cyber resilience scenario testing as soon as possible. ∅ A systemic impact tolerance objective (SITO), which defines the point at which the tolerance for disruption of the financial system is deemed to be breached, will need to be implemented. ∅ The ESRB will consider which policy tools are most effective in responding to a system-wide cyber incident.
Americas	5	Office of the Superintendent of Financial Institutions (OSFI)	7 March 2023	<p>n The OSFI finalised its guidelines on climate risk management. The guidelines are comprised of two chapters: (i) Governance and risk management expectations and (ii) Climate-related financial disclosures. Key requirements/supervisory expectations include the following.</p> <ul style="list-style-type: none"> ∅ Financial institutions should incorporate the implications of physical risks from climate change and the risks associated with the transition to a low-greenhouse gas (GHG) economy to them in their business models and strategies. ∅ Financial institutions should maintain sufficient capital and liquidity buffers for their climate-related risks, which should be incorporated into their Internal Capital Adequacy Assessment Process (ICAAP) or Own Risk and Solvency Assessment (ORSA) process. ∅ Large financial institutions should disclose GHG emissions (Scope 3) in 2025; others should do so in 2026.
	6	Office of the Superintendent of Financial Institutions (OSFI)	28 February 2023	<p>n The OSFI released draft guidelines on culture and behaviour risks for consultation. Principles proposed in the consultation document include the following.</p> <ul style="list-style-type: none"> ∅ Desired culture and expected behaviours are designed to align with the purpose and strategy of the financial institution and governed through appropriate structures and frameworks. ∅ Compensation, incentives and rewards promote and reinforce the desired culture and expected behaviours.

				<ul style="list-style-type: none"> Ø Financial institutions proactively monitor for, assess and act to address risks related to culture and behaviour that may influence their resilience.
	7	National Association of Insurance Commissioners (NAIC)	13 February 2023	<p>n The NAIC announced its strategic priorities for 2023, which include the following.</p> <ul style="list-style-type: none"> Ø Climate risk/natural catastrophes and resiliency: The NAIC will work to close climate risk-related protection gaps through, e.g., an on-going consumer education campaign raising awareness of the support state departments of insurance can offer. Ø Data/artificial intelligence (AI), cybersecurity and innovation: The NAIC will update its model laws and create new frameworks and guidance regarding insurers' responsible use of data/AI and cybersecurity response. Ø Insurer financial oversight and transparency: The NAIC plans to address financial transparency around private-equity-affiliated insurers and traditional life insurers and related investment activities.
	8	U.S. Department of Treasury	8 February 2023	<p>n The Treasury published a report on the U.S. financial services sector's adoption of cloud services. The report has identified six thematic challenges associated with the greater use of cloud services by U.S. financial institutions. These challenges include the following.</p> <ul style="list-style-type: none"> Ø Lack of transparency: Financial institutions wanted to have additional information to improve their understanding of the risks associated with cloud services. On the other hand, cloud service providers consider intensive in-person audits a challenge to maintaining the security of their multi-tenant environments. Ø Lack of human resources: There is a shortage of the appropriate staff expertise for cloud services. Certain cloud service offerings can be highly complex for financial institutions to manage. Ø Concentration risk: Concentration on a small number of cloud service providers could expose many clients of financial services to the same set of physical or cyber risks.
Asia Pacific	9	Bank Negara Malaysia (BNM)	28 February 2023	<p>n The BNM released a draft of the requirements regarding the fair treatment of vulnerable consumers to promote a culture where financial service providers properly consider and respond to the needs of vulnerable consumers. Proposed requirements include the following.</p> <ul style="list-style-type: none"> Ø Senior management of a financial service provider (FSP) is required to set the right tone from the top by clearly communicating the values and standards upheld by the FSP when dealing with vulnerable consumers.

			<ul style="list-style-type: none"> Ø An FSP shall exercise due care when adopting AI and machine learning in credit assessments and risk underwriting to avoid the unfair discrimination or exclusion of vulnerable consumers from accessing financial services and products. Ø An FSP must ensure that communication with vulnerable consumers throughout the product life cycle is clear and easily understood by the vulnerable consumers.
10	Bank Negara Malaysia (BNM)	23 February 2023	<p>n The BNM released an exposure draft that sets out proposed requirements regarding electronic Know-Your-Customer (e-KYC). These proposed requirements include the following.</p> <ul style="list-style-type: none"> Ø A financial institution shall obtain Board approval on the overall risk appetite and internal framework governing the implementation of e-KYC. Ø A financial institution shall adopt an appropriate combination of authentication factors when establishing measures to verify the identity of a customer being on-boarded through e-KYC. Ø Where the decision to verify a customer’s identity through e-KYC is automated with the use of AI and/or machine learning, a financial institution shall ensure that the e-KYC solution is continuously capable of accurately distinguishing between genuine and non-genuine cases of customer on-boarding.

Sources:

1. IAIS 'IAIS finalises criteria that will be used to assess whether the Aggregation Method provides comparable outcomes to the Insurance Capital Standard'
2. FSB 'FSB Chair outlines work priorities for 2023'
3. ECB 'Banks' digital transformation: where do we stand?'
4. ESRB 'ESRB publishes report on advancing macroprudential tools for cyber resilience'
5. OSFI 'OSFI issues new Guideline on Climate Risk Management'
6. OSFI 'OSFI releases draft guideline, launches consultation on culture and behaviour risks'
7. NAIC 'NAIC Announces 2023 Regulatory Priorities'
8. U.S. Department of the Treasury 'New Treasury Report Assesses Opportunities, Challenges Facing Financial Sector Cloud-Based Technology Adoption'
9. BNM 'Exposure Draft on Fair Treatment of Vulnerable Consumers'
10. BNM 'Exposure Draft on Electronic Know-Your-Customer (e-KYC)'

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