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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)	22 June 2023	■ The FSB developed a draft of a toolkit for third-party risk management by financial institutions and oversight of third-party risks by financial authorities. The toolkit that financial institutions can use for their third-party risk management covers the following. ➢ Identification of critical services and assessment of criticality ➢ Onboarding and ongoing monitoring of service providers ➢ Incident reporting from third-party service providers to financial institutions ➢ Management of risks from service providers' supply chains
	2	World Bank (WB)	22 June 2023	■ **The WB announced a toolkit for supporting countries after natural disasters**. One of the action items is to build enhanced catastrophe insurance for providing resources without adding to debt. This can include CAT Bonds, with all countries, especially lower-income ones, being given an option to embed catastrophe insurance into their lending products.
Europe	3	U.K. Prudential Regulation Authority (PRA)	29 June 2023	■ **The PRA consulted on a major set of reforms to Solvency II**, which include the following. ➢ **Simplification** - A new method for calculating TMTP (transitional measure on technical provisions), which uses only Solvency II-based numbers, is introduced. Also, the financial resource requirement (FRR) test is no longer required. - Reporting and disclosure-related requirements are simplified. ➢ **Flexibility** - **Permissions, not approval, are granted to internal models** under a new principles-based framework. - **Two types of safeguards, i.e., a residual model limitation (RML) capital add-on (RML CAO) and a qualitative safeguard for use in internal models**, are introduced. ➢ **Encouraging entry**

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

				- Third-country branches are no longer required to calculate branch capital requirements and hold assets that cover the SCR in the UK. - New entrants are allowed to operate at lower levels of MCR for the first 12 months.
	4	U.K. Prudential Regulation Authority (PRA)	23 June 2023	■ **The PRA issued a follow-up letter on inflation and reserving to general insurers** based on its thematic review on the effects of claims inflation on general insurance claims. Key messages from the PRA include the following. ➢ **Inflation allowance applied to insurers' technical provisions may not be sufficient**, considering, for example, a lag between economic inflation and claims inflation for, in particular, longer-tailed business lines. ➢ **Underestimating future claims inflation assumptions can have a significant impact on insurers' financial strength**, considering that insurers have benefitted from a fall in best estimate technical provisions due to a fall in risk-free rates. ➢ With regard to reserving, reserving teams need to be supported by setting up the appropriate firm-wide reserve estimates.
	5	European Insurance and Occupational Pensions Authority (EIOPA)	22 June 2023	■ **The EIOPA published its June 2023 Financial Stability Report**. Key messages include the following. ➢ **Climate risk and sustainable finance**: The management of protection gaps is one of the key challenges for the EU insurance sector. On sustainable finance, insurers, as major long-term investors, can play a significant role in putting the EU economies on a more sustainable track and supporting their transition to a low-carbon economy. ➢ **Cyber risk**: Insurers have become more vulnerable to cyber threats and therefore it is crucial for them to implement robust cyber security measures. On cyber underwriting, insurers may lack the expertise and resources necessary to price cyber risks adequately. ➢ The EU insurance market: The future cost of claims for non-life businesses could increase further due to continued high **inflation**.
	6	U.K. HM Treasury (Treasury)	22 June 2023	■ **The Treasury published a draft of a regulation related to its Solvency II reform for public consultation**. The draft regulation addresses the **(i) calculation of risk margins, (ii) application of matching adjustments and (iii) calculation of matching adjustments**, etc. ■ Under the proposed regulation, the risk margin is calculated in accordance with the following formula.

				$$RM = CoC * \sum_{t \geq 0} SCR_t * \max\ (\lambda^t, \lambda_{floor})$$ Where CoC is 4%, and the risk tapering factor (λ) is 0.9 for long-term insurance and 1.0 for general insurance with a floor of 0.25. ■ It is expected that this reform to risk margin will take effect by the end of 2023, with the reform for matching adjustments coming into force by the end of June 2024.
	7	European Supervisory Authorities (ESAs)	19 June 2023	■ **The ESAs**, which are comprised of the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority, **launched a public consultation of technical standards that are required under the Digital Operational Resilience Act (DORA)**. The consultation package includes four draft Regulatory Technical Standards (RTS) and one draft Implementing Technical Standards (ITS). ■ One draft RTS defines the criteria for determining a 'major' ICT-related incident. The primary criteria proposed are (i) the number of customers, financial institutions and transactions affected, (ii) data losses and (iii) critical services affected.
	8	Bank of England (BoE)	19 June 2023	■ **The BoE has launched its first system-wide exploratory scenario (SWES) exercise**, which aims to (i) enhance the understanding of the risks to and from non-bank financial institutions (NBFIs) and the behaviour of NBFIs as well as banks in stress and (ii) investigate how these behaviours and market dynamics can amplify shocks in markets and pose risks to the financial stability of the U.K. ■ Large banks, insurers, CCPs and a variety of funds (including pension funds, hedge funds and funds managed by asset managers) are supposed to participate in this exercise. ■ Results of the SWES exercise will be published in 2024.
	9	U.K. Prudential Regulation Authority (PRA)	15 June 2023	■ **The PRA issued a letter on potential risks associated with funded reinsurance arrangements** to life insurers. These risks include the following. ➢ **Non-historical probability of recapture (PR)**: The funded reinsurance market is made up of new reinsurers or existing reinsurers with concentrated business models. Historical evidence of default risk might not be appropriate to capture recapture risks. ➢ **Correlated PR**: These new business models have focused on credit risks. Credit cycle shocks can therefore affect multiple reinsurers simultaneously. ➢ **Uncertainty in management actions**: Recapture is likely to occur during a credit cycle stress, in

				which replacement of the contracts, which is one of the management actions to be taken, may not be available.
	10	European Systemic Risk Board (ESRB)	6 June 2023	■ **The ESRB published its report 'EU Non-bank Financial Intermediation Risk Monitor 2023.'** Key findings include the following. ➢ Both the deterioration of the macro-financial environment and **increased credit risk** continue to pose challenges to the non-bank financial intermediation (NBFI) sector. The risk of a disorderly fall in asset markets remains high. ➢ Increased **cyclical liquidity risk** could amplify shocks. Also, **structural changes in liquidity provision and demand** provide challenges. Liquidity mismatch remains an important structural vulnerability in the NBFI sector. ➢ **Excessive leverage** in the financial system is also a key vulnerability factor.
Americas	11	Canada Office of the Superintendent of Financial Institutions (OSFI)	28 June 2023	■ **The OSFI issued a draft of the specifications for the collection of climate risk-related information**, including emissions and exposure data, from financial institutions. Information the financial institutions are likely to require for submission include the following. ➢ **Physical risk** (by four perils) - Insurance claims and revenue by location (in/outside Canada) and insurance class - Probable maximum loss (PML) by region and insurance class ➢ **Transition risk** - Entity-level GHG emissions by scope, asset class and region - Financed GHG emissions by asset class, industry, region and credit rating - Insurance-associated GHG emissions by industry, region and insurance class
Asia Pacific	12	Australian Prudential Regulation Authority (APRA)	5 July 2023	■ **The APRA released the results of its assessment on financial institutions' compliance with Prudential Standard CPS 234 Information Security**. Gaps identified from the assessment include the following. ➢ Incomplete identification and classification of critical sensitive information assets ➢ Limited assessment of third-party information security capabilities ➢ Failure to regularly review or test incident response plans

	13	Monetary Authority of Singapore (MAS)	28 June 2023	■ **The MAS issued a consultation paper on the proposed code of conduct for ESG rating and data product providers**. ■ **The draft code of conduct, which is largely in line with the IOSCO's recommended good practices** published in November 2022**, provides 7 principles** on (i) securing quality, (ii) independency, (iii) managing conflict of interests, (iv) ensuring transparency, (v) confidentiality, (vi) efficiency and (vii) communication with client companies.

Sources:

1. FSB ‘Enhancing Third-Party Risk Management and Oversight: A toolkit for financial institutions and financial authorities - Consultative document’
2. WB ‘World Bank Group Announces Comprehensive Toolkit to Support Countries After Natural Disasters’
3. PRA ‘The PRA consults on major elements of the new Solvency UK framework, with measures to simplify the framework, improve flexibility, and support growth and competitiveness’
4. PRA ‘Follow up to the letter: Insights from PRA thematic review of general insurance reserving and capital modelling’
5. EIOPA ‘European insurers and pension funds hold up well despite elevated financial stability risks’
6. HMT ‘Draft Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations’
7. EIOPA ‘ESAs consult on the first batch of DORA policy products’
8. BoE ‘Bank of England launches first system-wide exploratory scenario exercise’
9. PRA ‘Letter from Charlotte Gerken ‘Feedback on the PRA’s preliminary thematic review work on funded reinsurance arrangements’’
10. ESRB ‘ESRB publishes EU Non-bank Financial Intermediation Risk Monitor 2023’
11. OSFI ‘OSFI issues draft Climate Risk Returns for consultation’
12. APRA ‘Cyber security stocktake exposes gaps’
13. MAS ‘Consultation Paper on Proposed Code of Conduct for Environmental, Social and Governance (“ESG”) Rating and Data Product Providers’

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