



Regulatory developments in the global insurance sector

Vol. 21 (March to April 2022)



Executive summary¹

Region	No	Organisation(s)	Date	Regulatory developments
Global	1	International Sustainability Standards Board (ISSB)	31 March 2022	<ul style="list-style-type: none"> ■ ISSB published the Exposure Draft of ‘General Requirements for Disclosure of Sustainability-related Financial Information’ (IFRS S1) and ‘Climate-related Disclosures’ (IFRS S2), respectively. <ul style="list-style-type: none"> ➤ IFRS S1 is to require an entity to disclose information about its significant sustainability-related risks and opportunities, i.e., information on governance, strategy, risk management and metrics as well as targets associated with those risks and opportunities. ➤ IFRS S2 is to require an entity to disclose information on its exposure to significant climate-related risks and opportunities. ➤ With regard to consistency between IFRS S2 and the TCFD recommendations (including recommended disclosures and guidance), it has been explained that there are some differences in that IFRS S2, for example, requires additional, more granular information and differs from the guidance mainly due to some additional disclosures proposed.
	2	IFRS Foundation	24 March 2022	<ul style="list-style-type: none"> ■ IFRS Foundation and Global Reporting Initiative (GRI) signed an agreement, under which their respective standard-setting boards, the International Sustainability Standards Board (ISSB) and the Global Sustainability Standards Board (GSSB), will seek to coordinate their standard-setting activities, etc. ■ By working together, the IFRS Foundation and GRI provide two ‘pillars’ of international sustainability reporting: IFRS Sustainability Disclosure Standards and GRI sustainability reporting requirements.
	3	Central Banks and Supervisors Network for Greening the Financial System (NGFS)	24 March 2022	<ul style="list-style-type: none"> ■ NGFS published a statement on nature-related financial risks following a report published by the joint Study Group on Biodiversity and Financial Stability that contains five recommendations. The key messages of this statement include the following. <ul style="list-style-type: none"> ➤ The scope of NGFS covers the broader context of environmental risk analysis and environmentally sustainable development. ➤ NGFS considers that nature-related risks, including those associated with biodiversity loss, could have significant macroeconomic implications, and that a failure to address those

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

				<p>implications is a source of risks for financial institutions as well as for financial stability.</p> <ul style="list-style-type: none"> ➤ Central banks, financial supervisors and financial institutions are expected to, for example, assess the interactions between nature, the macroeconomy and the financial system.
Europe	4	European Insurance and Occupational Pensions Authority (EIOPA)	5 April 2022	<ul style="list-style-type: none"> ■ EIOPA published its fourth report on the costs and past performance of insurance and pension products. Key findings relating to insurance products include the following. <ul style="list-style-type: none"> ➤ The shift from traditional profit participation products to hybrid and unit-lined ones accelerated in 2020. Gross written premium from profit participation products decreased by 12% in that year. Hybrid products have seen greater promotion and distribution. ➤ Among these three types of products, i.e., hybrid, unit-lined and participation, unit-lined products provided the highest weighted average return of 6%, and their costs were higher than those of other types of products. ➤ The IBIPs (insurance-based investment products) market has an appetite for ESG financial products, but there are potential risks relating to greenwashing practices for those products.
	5	European Insurance and Occupational Pensions Authority (EIOPA)	5 April 2022	<ul style="list-style-type: none"> ■ EIOPA published the ultimate forward rates (UFRs) for 2023. The UFRs for major currencies remain the same as those in the previous year, while the expected real rate for 2023 dropped by 0.05%. ■ The UFRs for major currencies are as follows: 3.45% for EUR, GBP, AUD, CAD and USD; 2.45% for CHF; and 3.50% for JPY.
	6	European Insurance and Occupational Pensions Authority (EIOPA)	4 April 2022	<ul style="list-style-type: none"> ■ EIOPA has launched its first climate stress test for the European occupational pension sector. Key features of the stress test include the following. <ul style="list-style-type: none"> ➤ Objective(s): to assess the Institutions for Occupational Retirement Provision (IORP) exposure to environmental risks and the effects of a rise in inflation on retirement income. ➤ Scope: 18 countries that have an IOPR sector whose asset size exceeds 500 million euros. ➤ Scenario: a scenario based on a disorderly NGFS transition. Under this scenario, policy measures to reduce carbon emissions are delayed and the carbon price jumps by 321 euros in Europe in 2022 to achieve the Paris Agreement targets.
	7	U.K. Financial Conduct Authority (FCA)	25 March 2022	<ul style="list-style-type: none"> ■ FCA finalised its revisions to the PRIIPs Regulation. One major change to the Regulation is to replace the requirements and methodologies for presentation of performance scenarios in the KID with a requirement for narrative information on performance. The narrative information to be provided

			<p>include the following.</p> <ul style="list-style-type: none"> ➤ A description of the main factors that can affect future returns for the investor. ➤ Identification of the most relevant index, etc. along with an explanation of how the PRIIP is likely to compare in terms of performance and volatility. ➤ A brief description of the outcome the investor should expect when the PRIIP matures or is redeemed/encashed under severely adverse market conditions.
8	U.K. Bank of England (BoE)	24 March 2022	<p>■ The Financial Policy Committee of the BoE published a report on crypto-assets and decentralised finance (DeFi) that analyses risks, etc. to financial stability brought by crypto-assets and DeFi. Potential risks mentioned in the report include the following.</p> <ul style="list-style-type: none"> ➤ Risk to systemic financial institutions: The growth of stablecoins for payments could increase the role of non-banks in the financial system and opportunities for regulatory arbitrage could arise. ➤ Risks to core financial markets: Spillovers to core financial markets may arise through an increase in investments in crypto-assets and transactions of crypto-derivatives by institutional investors. Changes in the composition of assets that back stablecoins could create risks for the financial system. ➤ Risks from using stablecoins for payments: Public confidence in money and payments could be undermined if a systemic stablecoin used for payments fails to meet its obligations.
9	European Insurance and Occupational Pensions Authority (EIOPA)	21 March 2022	<p>■ EIOPA issued six recommendations based on the outcomes from its 2021 insurance stress test. Those recommendations include the following.</p> <ul style="list-style-type: none"> ➤ Supervisors to consider whether insurers still reliant on transitional measures under Solvency II are taking concrete actions to reduce their dependency on those measures. ➤ Supervisors to verify that insurers allocate sufficient resources to ensure that their risk management frameworks are sufficiently flexible to assess risks that are not reported under the Solvency II reporting framework, such as liquidity risks. ➤ Supervisors to further assess the viability of management actions applied in the stress test exercise.

	10	European Supervisory Authorities (ESAs)	17 March 2022	<ul style="list-style-type: none"> ■ ESAs issued a warning to consumers on the risks of crypto-assets. Major risks referred to in the warning include the following. <ul style="list-style-type: none"> ➤ Extreme price movements: This is mainly because the prices for many crypto-assets often rely solely on consumer demand. ➤ Absence of protection: The majority of crypto-assets and the selling of products/services in relation to those assets are unregulated in the EU. ➤ Product complexity: Some products providing exposure to crypto-assets are very complex and thus may not be suitable for many consumers.
Americas	11	Canada Office of the Superintendent of Financial Institutions (OSFI)	15 March 2022	<ul style="list-style-type: none"> ■ OSFI has sent a letter to financial institutions seeking comments on proposed outcomes of effective culture risk management before it issues a principles-based, outcome-focused culture risk management guideline for consultation in late 2022. ■ The proposed outcomes have seven components: (i) culture risk management & oversight; (ii) leadership; (iii) compensation, incentives & people management; (iv) accountability & ownership; (v) risk mindsets & behaviours; (vi) group dynamics & decision-making; and (vii) resilience. ■ OSFI will further enhance its assessment of culture risks beyond corporate governance effectiveness to form a more comprehensive view of the adequacy and effectiveness of financial institutions' culture risk management.
Asia Pacific	12	Hong Kong Insurance Authority (IA)	1 April 2022	<ul style="list-style-type: none"> ■ IA issued a circular on the use of premium financing to life insurers, given the growing popularity of premium financing to fund insurance premium payments. Insurers and insurance intermediaries (referred to as 'insurers' collectively) are required to, for example: <ul style="list-style-type: none"> ➤ Take reasonable steps to ascertain whether the customer (i.e., potential policy holder) is purchasing the life insurance policy using premium financing. ➤ Assess whether the customer has sufficient financial resources to, e.g., pay at the outset the portion of the premium not financed by the premium financing facility where the customer intends to use premium financing. ➤ Assess whether customers using premium financing face a risk of over-leveraging.

	13	Monetary Authority of Singapore (MAS)	22 March 2022	<ul style="list-style-type: none"> ■ MAS encouraged insurers to, to the extent possible, study and adopt the best practices and recommendations published by the Insurance Culture and Conduct Steering Committee (ICCSC) established by industry associations. Best practices and recommendations presented in ‘Promoting Ethical Culture and Conduct Through Corporate Governance and Systems’ include the following. <ul style="list-style-type: none"> ➤ Leadership and tone from the top: The Board considers establishing a Board-level and/or management-level Culture and Conduct (C&C) Committee. ➤ Governance and systems: Every insurance company needs a senior C&C Champion in their 1st line, with this role being typically undertaken by the CEO or a C-suite executive. ➤ Capability and capacity: A Board-level committee approves an appropriate C&C framework/policy, discusses C&C matters in its agenda and oversees progress.
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Sources:

1. IFRS Foundation 'ISSB to publish exposure drafts on climate and general sustainability-related financial disclosures'
2. IFRS Foundation 'IFRS Foundation and GRI to align capital market and multi-stakeholder standards to create an interconnected approach for sustainability disclosures'
3. NGFS 'Statement on Nature-related Financial Risks'
4. EIOPA 'EIOPA looks into costs and past performance of insurance and pension products'
5. EIOPA 'EIOPA publishes the Ultimate forward rate (UFR) for 2023'
6. EIOPA 'EIOPA launches climate stress test for the European occupational pension sector'
7. FCA 'FCA confirms PRIIPs regulations'
8. BoE 'Financial Stability in Focus: Cryptoassets and decentralised finance'
9. EIOPA 'EIOPA issues recommendations from EIOPA's 2021 Insurance Stress Test'
10. EIOPA 'Warning to consumers on the risks of crypto-assets'
11. OSFI 'Culture Risk Management'
12. IA 'Insurance Authority and Hong Kong Monetary Authority introduce measures to enhance protection of policy holders in the use of premium financing when taking out life insurance policies'
13. MAS 'ID 03/22 Publication of Best Practice Papers by the Insurance Culture and Conduct Steering Committee (ICCSC)'

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