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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	Network for Greening the Financial System (NGFS)	6 July 2022	■ **NGFS published its final report on bridging data gaps that contains four policy recommendations**. Those recommendations include the following. ➢ To foster convergence towards a common and consistent set of global disclosure standards, it is necessary to substantially increase the availability of granular data on emissions that are useful for decision-making and to improve the reliability of reported climate-related data. ➢ It is necessary to harmonise taxonomies and sustainable finance classifications across the globe and to foster interoperability by, for instance, intensifying cooperation and coordination on existing taxonomies and sustainable finance alignment approaches. ➢ To develop well-defined and decision-useful metrics and methodological standards, it is necessary to substantially increase the harmonisation of forward-looking metrics by, for example, collecting more granular data and fostering partnerships with institutions, such as the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC).
	2	International Association of Insurance Supervisors (IAIS)	15 June 2022	■ **IAIS published draft criteria for assessing whether the Aggregation Method (AM) provides comparable outcomes to the Insurance Capital Standard (ICS) for consultation**. ■ 'Comparable outcomes to the ICS' is defined that the AM produces similar, but not necessarily identical, results over time that trigger supervisory action on group capital adequacy grounds. The consultation document provides six high-level principles accompanied by assessment criteria, including the following. ➢ AM and ICS results are significantly correlated in that they change similarly in response to changing economic and financial market conditions over the business cycle. ➢ Individual elements of a group solvency approach will be analysed; the decision on comparable outcomes will consider the elements in totality. ➢ The AM could be more but not less prudent than the ICS.
	3	Basel Committee on Banking	15 June	■ **BCBS published its principles for the effective management and supervision of climate-related financial risks**. 18 principles on corporate governance, internal control, adequacy of capital 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 24 report. It is advised that you refer to the respective original materials for accurate information.

		Supervision (BCBS)	2022	liquidity and risk management, etc., which include, but are not limited to, the following, are established. 13 of the principles are for banks; the rest are for supervisors. ➢ Banks should develop and implement a sound process for understanding and assessing the potential impacts of climate-related risk drivers on their businesses and on the environments. ➢ Banks should identify and quantify climate-related financial risks and incorporate those assessed as material over relevant time horizons into their internal capital and liquidity adequacy assessment processes. ➢ Supervisors should determine that banks' incorporation of material climate-related financial risks into their business strategies, corporate governance and internal control frameworks is sound and comprehensive.
Europe	4	European Insurance and Occupational Pensions Authority (EIOPA)	22 June 2022	■ **EIOPA published its June 2022 Financial Stability Report**. Key messages in the report include the following. ➢ Non-life insurers are becoming more vulnerable to climate change. Also, the high inflation and geopolitical tensions could potentially deteriorate insurers' underwriting profitability and business prospects. ➢ Life insurers continuously reduce guaranteed rates for new products and shift new business away from traditional products that provide policyholders with a guaranteed return. Policyholders therefore bear market risk and are more exposed to potential negative market developments. ➢ Due to the increased relevance of digitalisation and cyber risks, EIOPA has enhanced its monitoring framework to start covering these risks.
	5	U.K. Prudential Regulation Authority (PRA)	21 June 2022	■ **PRA published a draft of the principles for model risk management (MRM) for banks**. While insurers are not in the scope of the principles given the ongoing Solvency II review, they may be relevant to insurers. ■ 5 principles proposed include the following. ➢ Banks have an established definition of a model that sets the scope for MRM, a model inventory, and a risk-based tiering approach to categorise models. ➢ Banks have a robust model development process with standards for model design and implementation, model selection and model performance measurement. ➢ Banks have a validation process that provides ongoing, independent and effective challenge to

				model development and use.
	6	European Insurance and Occupational Pensions Authority (EIOPA)	17 June 2022	■ **EIOPA released a consultation paper on the management of non-affirmative cyber underwriting exposures**. EIOPA considers that the difficulty in identifying non-affirmative cyber exposure and coverage is an issue that requires high attention from both insurers and supervisors. ■ EIOPA recommends that supervisors: ➢ Dedicate higher attention to the supervision of cyber underwriting risk by, in particular, (re)insurers that have potentially significant exposure to non-affirmative cyber insurance risks and have not yet developed a plan to identify and manage such risks; and ➢ Engage in a dialogue with insurers as well as supervise insurers in a more holistic and risk-based manner.
	7	European Insurance and Occupational Pensions Authority (EIOPA)	17 June 2022	■ **EIOPA released a consultation paper on the supervisory statement on exclusions in insurance products related to risks arising from systemic events**. 'Systemic events' are defined as severe events that cause broad-based disruptions, significant adverse effects to public health/safety, the economy or the national security. ■ Supervisory expectations expressed in the consultation paper include the following. ➢ Exclusions in insurance policies should be clear so that consumers can understand whether coverage for a risk arising from a systemic event is provided in their insurance product. ➢ Exclusions-related aspects should be properly dealt with from the product design phase onwards, not solely at the point of sale or claim stage ➢ Supervisors should monitor the market to ascertain that insurance product manufacturers comply with product oversight and governance (POG) requirements.
Americas	-	-	-	-
Asia Pacific	8	Monetary Authority of Singapore (MAS)	30 June 2022	■ **MAS issued a paper that highlights observations from a thematic review on selected banks'/insurers' implementation of the Principles of Fairness, Ethics, Accountability and Transparency (FEAT Principles) in their use of Artificial Intelligence/Machine Learning**. Key observations from the review include the following. ➢ Financial institutions are in their early stages of implementing Artificial Intelligence and Data Analytics (AIDA)-specific risk management processes, given AIDA models are not widely used for decision-making. Some foreign institutions have principles and controls on AIDA that are defined

				at their Head Office in place. ➢ Regarding the governance of AIDA models, some financial institutions leverage existing governance structures, while others set up dedicated committees. ➢ Financial institutions that use or have plans to use AIDA models extensively in decision-making are expected to set up robust AIDA governance structures and demonstrate how their controls meet the MAS's expectation defined in the FEAT Principles.
	9	Bank Negara Malaysia (BNM)	30 June 2022	■ **BNM published a discussion paper on the 2024 climate risk stress testing (CRST) Exercise** for consultation. The proposed objective of the CRST is to assess the resilience of Malaysian financial institutions to physical and transition risks arising from various climate scenarios. Banks as well as insurers are requested to participate in the exercise. ■ Key elements proposed for the CRST include the following. ➢ Scenarios: (i) Current Policies Scenario (+3 degrees Celsius global temperature rise); (ii) Nationally Determined Contributions (NDCs) scenario (+2.5 degrees Celsius temperature rise); and (c) Delayed Transition scenario (below +2 degrees Celsius global temperature rise). ➢ Time horizon: From December 2023 to 2050. ➢ Financial risk coverage - Banks: Credit risk (quantitative assessment), and market, liquidity and operational risk (qualitative assessment) - Insurers: Insurance risk and market risk (quantitative assessment), and credit risk, liquidity risk and operational risk (qualitative assessment)

Sources:

1. NGFS ‘NGFS publishes its Final report on bridging data gaps’
2. IAIS ‘Public consultation on draft criteria that will be used to assess whether the Aggregation Method provides comparable outcomes to the Insurance Capital Standard’
3. BCBS ‘Principles for the effective management and supervision of climate-related financial risks’
4. EIOPA ‘EIOPA sees the European economy entering a phase of heightened uncertainty’
5. PRA ‘CP6/22 – Model risk management principles for banks’
6. EIOPA ‘Consultation on the Supervisory statement on management of non-affirmative cyber underwriting exposures’
7. EIOPA ‘Consultation on the supervisory statement on exclusions in insurance products related to risks arising from systemic events’
8. MAS ‘Implementation of Fairness Principles in Financial Institutions' Use of Artificial Intelligence / Machine Learning’
9. BNM ‘Discussion Paper on the 2024 Climate Risk Stress Testing Exercise’

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