



Regulatory developments in the global insurance sector

Vol. 25 (July to August 2022)



Executive summary¹

Region	No	Organisation(s)	Date	Regulatory developments
Global	1	Financial Stability Board (FSB)	14 July 2022	<ul style="list-style-type: none"> ■ FSB published a progress report on addressing financial risks caused by climate change. Major updates and messages provided include the following. <ul style="list-style-type: none"> ➤ Disclosures: The timely issuance of a final global baseline climate reporting standard by the International Sustainability Standards Board is critical. Alongside such a reporting standard, there is a growing recognition of the importance of global assurance standards. ➤ Data: It is important to establish data repositories that provide open access to data in a consistent form. ➤ Vulnerabilities analysis: Further experience with developing and using climate scenarios can help the monitoring of financial risks.
	2	Financial Stability Board (FSB)	11 July 2022	<ul style="list-style-type: none"> ■ FSB issued its statement on the international regulation and supervision of crypto-asset activities. Key messages by the FSB include the following. <ul style="list-style-type: none"> ➤ Crypto-assets and markets must be subject to effective regulation and oversight commensurate to the risks they pose, both at the domestic and international level. ➤ Stablecoins should be captured by robust regulations and supervision if they are to be adopted as a widely used means of payment, etc. ➤ Crypto-asset service providers must ensure compliance with existing legal obligations in the jurisdictions they operate, which include general requirements that are not specific to crypto-assets.
Europe	3	European Insurance and Occupational Pensions Authority (EIOPA)	2 August 2022	<ul style="list-style-type: none"> ■ EIOPA finalised its application guidance on how to reflect climate change in the ORSA. Good practices and supervisory expectations expressed in the guidance include the following. <ul style="list-style-type: none"> ➤ A good practice is to address climate change risks in more than one chapter of the ORSA report, such as in visions and strategies, risk appetite or risk profile, risk assessment, scenario analysis and conclusions. ➤ Insurers are expected to identify the materiality of exposures to climate change risks through a

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

			<p>combination of qualitative and quantitative analyses. The time horizon for analysing climate change risks should be consistent with the insurer's (long-term) business commitments.</p> <ul style="list-style-type: none"> ➤ For scenario analysis, insurers are expected to consider at least two long-term climate scenarios: a scenario where the global temperature rise remains below 2 degrees Celsius and another scenario where the rise exceeds 2 degrees Celsius.
4	European Insurance and Occupational Pensions Authority (EIOPA)	1 August 2022	<ul style="list-style-type: none"> ■ EIOPA released its Risk Dashboard based on Solvency II data from the first quarter of 2022. The dashboard shows, for example: <ul style="list-style-type: none"> ➤ Insurers' exposures to macro, market and digitalisation risks are currently the main concern for the insurance sector. ➤ Insurers' profitability and solvency risks remain at a medium level. Given the increasing trend of interest rates, life insurers' solvency positions were raised. ➤ Non-life insurers' insurance premiums grew significantly on a year-on-year basis.
5	U.K. Prudential Regulatory Authority (PRA)	21 July 2022	<ul style="list-style-type: none"> ■ PRA published a discussion paper 'Operational resilience: Critical third parties to the UK financial sector' that proposes a new supervisory approach to critical third parties (CTPs). Three main building blocks that constitute the approach are the following. <ul style="list-style-type: none"> ➤ A framework for the supervisory authorities to identify potential CTPs and recommend those CTPs for formal designation to the HM Treasury. ➤ Minimum resilience standards for designated CTPs in respect of material services they provide to financial institutions, etc. ➤ A range of tools for testing the resilience of material services that CTPs provide to financial institutions, etc. ■ The Financial Services and Markets Bill proposes to give the supervisory authorities formal statutory powers, which include the following, to manage the systemic risks that CTPs pose to the stability of the U.K. financial system and trust to it. <ul style="list-style-type: none"> ➤ Issuing a direction that requires a CTP to take action as specified. ➤ Issuing a disqualification notice to a CTP if it breaches an applicable requirement.
6	European Insurance and Occupational	20 July 2022	<ul style="list-style-type: none"> ■ EIOPA finalised its guidance on integrating the customer's sustainability preferences in the suitability assessment for insurance-based investment products (IBIPs). Principles presented in the

		Pensions Authority (EIOPA)		<p>guidance include the following.</p> <ul style="list-style-type: none"> ➤ It is necessary to ensure that customers have a good grasp of the notion of ‘sustainability preferences’ and their choice as to whether and to what extent a particular product should be integrated into their investments. ➤ It is particularly important that insurers and insurance intermediaries do not exert pressure on the customer to adapt their sustainability preferences. ➤ Employees of insurers and insurance intermediaries that sell IBIPs need to have basic knowledge and competence to know how to assess the customer’s sustainability preferences.
	7	European Insurance and Occupational Pensions Authority (EIOPA)	11 July 2022	<p>■ EIOPA published a consultation paper on differential pricing practices in non-life insurance lines of business, in which EIOPA expressed its supervisory expectations in terms of product (i) approval process, (ii) target market, (iii) product testing, (iv) product monitoring and review, (v) documentation, (vi) distribution channels and (vii) supervision of such practices. Those expectations include the following.</p> <ul style="list-style-type: none"> ➤ Insurance product manufacturers should put in place a product approval process that ensures that consumers’ interests are considered in the product design and approval process. ➤ Manufacturers’ processes and procedures should ensure that products relying on differential pricing techniques continue to be monitored. ➤ When providing advice and/or selling products that rely on differential pricing practices, insurance distributors should provide fair and transparent information on renewals and price increases.
Americas	8	Canada Office of the Superintendent of Financial Institutions (OSFI)	13 July 2022	<p>■ OSFI released a new guideline for technology and cyber risk, in which OSFI’s expectations on how financial institutions should manage such risks are set out. Principles provided in the guideline include the following.</p> <ul style="list-style-type: none"> ➤ Financial institutions should establish a technology and cyber risk management framework that sets out a risk appetite for such risks and defines processes to identify, assess, manage, monitor and report on such risks. ➤ Financial institutions should maintain an updated inventory of all technology assets supporting business processes or functions. ➤ Financial institutions should maintain a range of practices, capabilities, processes and tools to identify and assess cyber security for weaknesses that could be exploited by external/internal

				threat actors.
Asia Pacific	9	Monetary Authority of Singapore (MAS)	5 August 2022	<p>■ MAS issued an information paper titled ‘Operational risk management – Management of third-party arrangements’ based on the findings from its thematic inspection of selected banks. Supervisory expectations expressed in terms of third-party risk management including the following.</p> <ul style="list-style-type: none"> ➤ Risk appetite: Banks have a suitable strategy and risk appetite to define the nature and extent of risk that they are willing and able to assume from their outsourcing arrangements. ➤ Due diligence: Banks specify clear requirements and provide comprehensive guidance on the due diligence and risk assessment processes for the onboarding of new outsourcing arrangements and the periodic review of existing arrangements. ➤ Banks are proactive in managing relationships with outsourced service providers and apply more rigorous controls for higher-risk arrangements.
	10	Australian Prudential Regulation Authority (APRA)	28 July 2022	<p>■ APRA released a draft of the prudential standards on operational risk management for consultation. Key principles proposed include the following.</p> <ul style="list-style-type: none"> ➤ Financial institutions must effectively manage their operational risks, set and maintain appropriate standards for conduct and compliance and maintain their critical operations within tolerance levels when experiencing severe disruptions. ➤ Financial institutions must identify, assess and manage operational risks that may result from inadequate or failed internal processes or systems, etc. ➤ Financial institutions must not rely on a service provider unless they can ensure that, in doing so, they can continue to meet their prudential obligations in full and effectively manage the associated risks.

Sources:

1. FSB 'FSB Roadmap for Addressing Financial Risks from Climate Change: 2022 progress report'
2. FSB 'FSB Statement on International Regulation and Supervision of Crypto-asset Activities'
3. EIOPA 'EIOPA publishes application guidance on how to reflect climate change in ORSA'
4. EIOPA 'Risk Dashboard shows overall resilient insurance sector even as macro, market and cyber risks abound'
5. PRA 'DP3/22 – Operational resilience: Critical third parties to the UK financial sector'
6. EIOPA 'EIOPA publishes guidance on integrating the customer's sustainability preferences in the suitability assessment under the IDD'
7. EIOPA 'EIOPA seeks input on supervisory statement on differential pricing practices'
8. OSFI 'OSFI releases new guideline for technology and cyber risk, balancing innovation with risk management'
9. MAS 'Operational Risk Management - Management of Third Party Arrangements'
10. APRA 'APRA consults on new prudential standard to strengthen operational resilience'

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