



## Regulatory developments in the global insurance sector

Vol. 35 (May to June 2023)



## Executive summary<sup>1</sup>

Region	No	Organisation(s)	Date	Regulatory developments
Global	1	International Association of Insurance Supervisors (IAIS)	23 May 2023	<ul style="list-style-type: none"> <li>■ <b>The IAIS published the Issues Paper on Insurance Sector Operational Resilience.</b> The issues paper focuses, among others, on (i) cyber resilience, (ii) IT third-party outsourcing, and (iii) business continuity management (BCM). Potential areas that can be further explored include the following. <ul style="list-style-type: none"> <li>➤ <b>Cyber resilience:</b> Discuss metrics and tools for evaluating the quality of an insurer’s framework to deliver on cyber resilience and emerging cyber risks.</li> <li>➤ <b>IT third-party outsourcing:</b> Align, to the extent possible, reporting definitions and requirements for terms relevant to IT third-party outsourcing.</li> <li>➤ <b>BCM:</b> Exchange information on best practices and methodologies used by supervisors relating to the integration of BCM with other risk management functions, the scope of BCM and the fit for the purpose of existing BCPs.</li> </ul> </li> </ul>
	2	International Organization of Securities Commissions (IOSCO)	23 May 2023	<ul style="list-style-type: none"> <li>■ <b>The IOSCO published a draft of the recommendations for crypto and digital asset markets.</b> An overarching recommendation is that <b>regulators should regulate and oversee the trading, issuing, marketing and selling of crypto-assets.</b> 18 recommendations proposed cover the following areas. <ul style="list-style-type: none"> <li>➤ Governance and disclosure of conflicts</li> <li>➤ Order handling and trade disclosures</li> <li>➤ Listing of crypto-assets and certain primary market activities</li> <li>➤ Abusive behaviours</li> <li>➤ Cross-border cooperation</li> <li>➤ Custody of client money and assets</li> <li>➤ Operational and technological risks</li> <li>➤ Retail distribution</li> </ul> </li> </ul>
Europe	3	European Insurance and	1 June	<ul style="list-style-type: none"> <li>■ <b>The ESAs, which is comprised of the EBA, the EIOPA and the ESMA, submitted their respective progress reports on greenwashing in the financial sector to the European Commission.</b> Key</li> </ul>

<sup>1</sup> 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 35 report. It is advised that you refer to the respective original materials for accurate information.

	Occupational Pensions Authority (EIOPA)	2023	<p>findings/observations in the report by the EIOPA include the following.</p> <ul style="list-style-type: none"> <li>➤ Greenwashing can manifest as part of the broader set of conduct risks at all stages of the insurance lifecycle, such as product manufacturing, product delivery (marketing and distribution) and product management (ongoing disclosure and claims-handling).</li> <li>➤ Some supervisors have identified one or more occurrences of greenwashing in the markets, while others have not.</li> <li>➤ Many supervisors have carried out supervisory activities to prevent greenwashing and its risks.</li> </ul>
4	European Supervisory Authorities (ESAs)	26 May 2023	<ul style="list-style-type: none"> <li>■ <b>The ESA, which is comprised of the EBA, the EIOPA and the ESMA, published a joint discussion paper that proposes criteria for the designation of critical ICT third-party service providers (TPPs) under the EU’s Digital Operational Resilience Act (DORA).</b> The proposed criticality assessment process is comprised of the following two steps. <ul style="list-style-type: none"> <li>➤ Step 1: assessment of ICT TPPs against a set of minimum numerical thresholds</li> <li>➤ Step 2: further qualitative and qualitative assessment of ICT TPPs identified in the first step</li> </ul> </li> <li>■ Assessment criteria/thresholds are proposed based on the following aspects. <ul style="list-style-type: none"> <li>➤ Impact on the provision of financial services</li> <li>➤ Importance of financial entities</li> <li>➤ Critical or important functions</li> <li>➤ Degree of substitutability</li> </ul> </li> </ul>
5	U.K. Prudential Regulation Authority (PRA)	17 May 2023	<ul style="list-style-type: none"> <li>■ <b>The PRA finalised its supervisory statement (SS) on model risk management for banks.</b></li> <li>■ The SS, which will become effective in May 2024, sets out <b>principles in the following five areas: (i) model identification and model risk classification, (ii) governance, (iii) model development, implementation and use, (iv) independent model validation and (v) model risk mitigants,</b> which require financial institutions to do, for example, the following. <ul style="list-style-type: none"> <li>➤ To have an established definition of a model that sets the scope for model risk management (MRM), a model inventory and a risk-based tiering approach to categorise models.</li> <li>➤ To have a robust model development process with standards for model design and implementation, model selection and model performance measurement.</li> </ul> </li> </ul>

				<ul style="list-style-type: none"> <li>➤ To have a validation process that provides challenge to model development and use.</li> </ul>
	6	European Insurance and Occupational Pensions Authority (EIOPA)	15 May 2023	<ul style="list-style-type: none"> <li>■ <b>The EIOPA released a Risk Dashboard from Q4 2022.</b> Key observations regarding the dashboard include the following. <ul style="list-style-type: none"> <li>➤ Macro-related risks remain the most relevant for the insurance sector.</li> <li>➤ Regarding credit risks, the credit quality of insurers' investments deteriorated for the top 75th percentile.</li> <li>➤ The growth median for life insurance premiums recorded a second consecutive quarter of negative performance.</li> </ul> </li> </ul>
	7	U.K. Financial Conduct Authority (FCA)	10 May 2023	<ul style="list-style-type: none"> <li>■ <b>The FCA published findings from its review on financial institutions' fair value assessment frameworks that will need to be established under the Consumer Duty</b> that comes into force in July 2023. Areas for which room for improvement has been identified include the following. <ul style="list-style-type: none"> <li>➤ <b>Understanding fair value:</b> Arguments that a financial institution's business models and ethos are inherently fair value will need to be backed by evidence.</li> <li>➤ <b>Assessing value:</b> Financial institutions will need to be able to assess the fair value of a wide range of products and services that are offered to different target markets.</li> <li>➤ <b>Data and governance:</b> Financial institutions will be expected to identify plans on, e.g., how to monitor fair value and address data gaps.</li> </ul> </li> </ul>
Americas	8	Bermuda Monetary Authority (BMA)	23 May 2023	<ul style="list-style-type: none"> <li>■ <b>The BMA issued a draft of the rules on recovery planning for the commercial insurance sector.</b> Information that needs to be included in insurers' recovery plans includes the following. <ul style="list-style-type: none"> <li>➤ Governance policies and processes for recovery planning and its implementation</li> <li>➤ Recovery triggers (criteria) and recovery measures (methods)</li> <li>➤ Stress scenarios used to assess the credibility and feasibility of recovery plans</li> <li>➤ Communication strategies</li> </ul> </li> </ul>
Asia Pacific	9	Bank Negara Malaysia (BNM)	1 June 2023	<ul style="list-style-type: none"> <li>■ <b>The BNM finalised its policy document on financial institutions' management of technology risks,</b> which are defined as risks emanating from the use of information technology and the internet.</li> <li>■ The policy document sets out standards and guidance in the following areas. Financial institutions are required to have in place robust risk management controls.</li> </ul>

			<ul style="list-style-type: none"> <li>➤ Governance</li> <li>➤ IT risk management</li> <li>➤ Technology operations management</li> <li>➤ Cybersecurity management</li> <li>➤ Technology audits</li> <li>➤ Regulatory processes</li> </ul>
10	Australian Prudential Regulation Authority (APRA)	18 May 2023	<ul style="list-style-type: none"> <li>■ <b>The APRA completed its reforms on recovery and resolution planning for banks and insurers with the finalisation of the Prudential Standard on Resolution Planning (CPS 900)</b> and its accompanying guidance (CPG 900). The Prudential Standard on Recovery and Exit Planning (CPS 190) has been finalised since December 2022.</li> <li>■ <b>Resolution plans will be developed for significant financial institutions (SFIs) and non-SFIs to be designated by the APRA.</b> These financial institutions may be required by the APRA to develop a pre-positioning plan that includes, for example, the following. <ul style="list-style-type: none"> <li>➤ Development of wind-down or run-off plans for particular businesses</li> <li>➤ Measures to ensure the operational continuity of key functions during resolution</li> </ul> </li> </ul>

## Sources:

1. IAIS 'IAIS publishes Issues Paper on Insurance Sector Operational Resilience'
2. IOSCO 'IOSCO Sets the Standard for Global Crypto Regulation'
3. EIOPA 'ESAs put forward common understanding of greenwashing and warn on risks'
4. EIOPA 'ESAs launch discussion on criteria for critical ICT third-party service providers and oversight fees'
5. PRA 'SS1/23 – Model risk management principles for banks'
6. EIOPA 'Risk Dashboard shows macro and market risks as top concern for insurers'
7. FCA 'Consumer Duty: Findings from our review of fair value frameworks'
8. BMA 'Consultation paper: Proposed recovery planning rules for Bermuda commercial insurance sector'
9. BNM 'Risk Management in Technology (RMiT) Policy Document'
10. APRA 'APRA finalises reforms aimed at strengthening recovery and resolution planning'

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