



Regulatory developments in the global insurance sector

Vol. 41 (November to December 2023)



Executive summary¹

Region	No	Organisation(s)	Date	Regulatory developments
Global	1	Basel Committee on Banking Supervision (BCBS)	29 November 2023	<p>■ The BCBS issued a public consultation paper on a Pillar 3 disclosure framework for climate-related financial risks. The paper proposes that qualitative and quantitative information be disclosed, which includes the following.</p> <ul style="list-style-type: none"> ➤ Qualitative information: Governance, strategy and risk management ➤ Quantitative information <ul style="list-style-type: none"> • Transition risk: Exposures and financed emissions by sector, real estate exposures in mortgage portfolios by energy efficiency level, emission intensity by physical output and sector as well as facilitated emissions related to capital markets and financial advisory activities by sector • Physical risk: Exposures subject to physical risks
	2	Financial Stability Board (FSB)	28 November 2023	<p>■ The FSB published a report on multifunction crypto-asset intermediaries (MCIs) and their implications for financial stability. The report describes the financial stability implications of MCIs as follows.</p> <ul style="list-style-type: none"> ➤ Vulnerabilities of MCIs, which include leverage, liquidity mismatch, technological and operational vulnerabilities, and interconnections in the crypto-asset ecosystem ➤ Amplifiers of MCI vulnerabilities, which include poor or lack of effective governance and risk management for MCIs as well as MCIs' concentration and market dominance ➤ Financial stability interlinkages and transmission channels, which include confidence effects, financial institutions' exposures to crypto-assets and the extent of crypto-assets' use in payments and settlements
	3	Basel Committee on Banking Supervision (BCBS)	28 November 2023	<p>■ The BCBS published a progress report on banks' implementation of the BCBS principles for effective risk data aggregation and reporting that were established in 2013, in which the BCBS describes the results from its assessment regarding compliance with their principles. Major findings presented include the following.</p>

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

			<ul style="list-style-type: none"> ➤ The overall pace of banks' progress in implementing sustainable risk data aggregation and risk reporting capabilities is occurring at a slower pace than envisaged largely due to fragmented IT landscapes, legacy systems and manual processes. ➤ Data architecture and IT infrastructure improvements can take some time to implement due to the complexity of banks' operating environments; several banks still lack a common taxonomy and complete data lineage.
4	International Association of Insurance Supervisors (IAIS)	23 November 2023	<ul style="list-style-type: none"> ■ The IAIS published draft application papers on (i) climate risk market conduct issues and (ii) climate risk scenario analysis, respectively. The former presents recommendations on considerations for (a) greenwashing and (b) natural catastrophes, including the following. <ul style="list-style-type: none"> ➤ Greenwashing <ul style="list-style-type: none"> • Supervisors should promote the development of a definition of greenwashing and a list of common characteristics of greenwashing. • Supervisors should review whether there is a risk of greenwashing in any stages of the product design process. ➤ Natural catastrophes <ul style="list-style-type: none"> • Insurers should ensure that NatCat coverage and exclusions are clearly stated in disclosures and other relevant documents. • Supervisors should require that pricing is adequate, non-discriminatory and properly communicated to consumers.
5	Basel Committee on Banking Supervision (BCBS)	15 November 2023	<ul style="list-style-type: none"> ■ The BCBS issued a discussion paper titled 'Digital fraud and banking: supervisory and financial stability implications'. Key messages in the paper include the following. <ul style="list-style-type: none"> ➤ Digital fraud is grouped into four categories: (i) unauthorised retail payment transactions; (ii) manipulating bank customers to issue retail payments; (iii) fraud related to other banking products; and (iv) fraud through customers' data or banks' systems. ➤ There are at least two supervisory and financial stability-related implications: (i) financial losses to banks resulting from digital fraud and (ii) reputation risks to banks and supervisors. ➤ Approaches to addressing digital fraud include (i) raising public awareness; (ii) guidance regarding control measures and security protocols; and (iii) supervising banks' digital fraud risk management practices.

	6	Financial Stability Board (FSB)	10 November 2023	<ul style="list-style-type: none"> ■ The FSB issued a practices paper on the identification of critical functions of insurers, in which the FSB summarises the approaches adopted by four jurisdictions, i.e., France, China, Australia and the Netherlands, to identify critical functions of insurers. Major progress made in these jurisdictions in that context include the following. <ul style="list-style-type: none"> ➤ The French authorities started to define a list of potentially critical functions of insurers, which will be followed by processes where the most significant insurers are identified for each of these functions. ➤ In China, a bottom-up approach has been taken for insurers to identify their critical functions. ➤ The Australian authorities conducted an interim system-wide impact and substitutability assessment to identify potential critical functions. Nevertheless, an insurer-specific assessment of these functions has not yet been undertaken. ➤ The Dutch authorities assessed in a public interest test their resolution objectives in the context of achievability, through which critical functions could possibly be identified. ■ Functions that have been considered critical in these jurisdictions so far include: agricultural insurance, credit insurance, construction liability insurance and medical liability insurance.
	7	International Association of Insurance Supervisors (IAIS)	6 November 2023	<ul style="list-style-type: none"> ■ The IAIS published a report on the roles of insurance supervisors in addressing natural catastrophe protection gaps. The roles that insurance supervisors can play in that context, as described in the report, include the following. <ul style="list-style-type: none"> ➤ Assessing insurance protection gaps: Supervisors can collect data from insurers on insured losses with regard to NatCat events. ➤ Improving consumer financial literacy and risk awareness: Supervisors can, in collaboration with industry and other government agencies, support initiatives to enhance consumer financial literacy and risk awareness. ➤ Incentivising risk prevention and reduction of insured losses: Supervisors can raise awareness on the benefits of risk prevention and encourage consumers to invest in risk prevention measures.
Europe	8	U.K. Financial Conduct Authority (FCA)	29 November 2023	<ul style="list-style-type: none"> ■ The FCA finalised its Sustainability Disclosure Requirements (SDR) and investment labels. The rules are comprised of the following four elements. <ul style="list-style-type: none"> ➤ Anti-greenwashing rules: A financial institution must ensure that any reference to the sustainability characteristics of a product or service is consistent with the sustainability

				<p>characteristics of said product or service and is fair, clear and not misleading.</p> <ul style="list-style-type: none"> ➤ Four sustainability labels: A financial institution must not make use of the following four labels, i.e., sustainability focus, sustainability improvers, sustainability impact and sustainability mixed goals, unless it meets the relevant requirements. ➤ Disclosures by managers: A manager must produce a consumer-facing disclosure, a pre-contractual disclosure, a public product-level annual sustainability report, an entity level sustainability report and a product level on-demand sustainability report in accordance with the relevant requirements. ➤ Disclosures by distributors: A distributor must ensure that retail clients are provided with access to a consumer-facing disclosure that relates to the product, etc.
	9	U.K. Prudential Regulation Authority (PRA)	16 November 2023	<ul style="list-style-type: none"> ■ The PRA published a consultation paper that expresses their proposed expectations for life insurers' use of funded reinsurance, given the growing appetite for the use of funded reinsurance arrangements in the U.K. life insurance market to support insurers' writing of bulk purchase annuity (BPA) businesses. The proposed expectations included the following. <ul style="list-style-type: none"> ➤ Counterparty internal investment limits: Insurers should set limits to their exposures to funded reinsurance counterparties. ➤ Collateral policies: Insurers should have clear collateral policies in place as part of their risk management policies linked to their risk appetite. ➤ Recapture plans: Insurers should formulate and document recapture plans for their funded reinsurance arrangements.
Americas	10	Canadian Office of the Superintendent of Financial Institutions (OSFI)	20 November 2023	<ul style="list-style-type: none"> ■ The OSFI published a draft of its updated guidelines on model risk management for public consultation. The draft guidelines set out seven principles with regard to model lifecycle and model risk management framework. These principles include the following. <ul style="list-style-type: none"> ➤ Financial institutions develop, approve and implement processes and controls that define expectations for each of the lifecycle components. ➤ Financial institutions establish a model risk management framework that provides an enterprise-wide view of their exposure to model risk. ➤ Financial institutions recognise the interdependency between data and model risk and have adequate policies and procedures to govern data in models.

Asia Pacific	-	-	-	-
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Sources:

1. BCBS 'Disclosure of climate-related financial risks'
2. FSB 'The Financial Stability Implications of Multifunction Crypto-asset Intermediaries'
3. BCBS 'Progress in adopting the Principles for effective risk data aggregation and risk reporting'
4. IAIS 'Public consultation on climate risk supervisory guidance – market conduct and scenario analysis'
5. BCBS 'Digital fraud and banking: supervisory and financial stability implications'
6. FSB 'Identification of Critical Functions of Insurers: Practices paper'
7. IAIS 'IAIS outlines actions for insurance supervisors in addressing natural catastrophe protection gaps'
8. FCA 'Sustainability disclosure and labelling regime confirmed by the FCA'
9. PRA 'CP24/23 – Funded reinsurance'
10. OSFI 'OSFI updates model risk management guidance and launches public consultation'

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