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MOODY'S ANALYTICS

INSURANCE NEWSLETTER

Regulatory Insight

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Key Developments at a Glance

This newsletter provides information about key developments in insurance regulations worldwide. New articles are sorted by country and associated with keywords. Hyperlinks provide direct access to the information sources.

KEY DEVELOPMENTS

The International Monetary Fund (IMF) has published a report on risks in the Insurance Sector. Interestingly, the Insurance Sector also features heavily in the April edition of the overall Global Financial Stability Report – the IMF's bi-annual report which considers risks to the world's financial system. The report contains three chapters and one is devoted to insurance.

The IMF's analysis of the problem contains little new, but concludes that life insurers in the major advanced economies have increased their contribution to risk in the financial system since the global financial crisis, although the insurers' contribution is still smaller than that of the banks. The usual causes of weaker balance sheets and the resulting search for yield are discussed.

The IMF attempts to break new ground in its consideration of the policy lessons. Supervisors need to place more emphasis on macro-prudential policies, such as stress testing, and consider the impact of their measures across the industry and even across countries. Capital buffers and market_consistent valuation (although tempered by counter-cyclical measures such as Europe's various Long_Term Guarantee Measures) also play a role. Of course, many of these measures are already implemented in Europe and elsewhere.

Against this background, the review by Mark Zelmer, of the Office of the Superintendent of Financial Institutions (OSFI) of Canada's new Life Insurance Capital Adequacy Test, is interesting. Mr. Zelmer argues that Canada has found a practical middle ground with capital measures, that reflects an appropriate amount of volatility that inevitably exists. Capital measures can fail because they are too sensitive or too insensitive. In a similar fashion, product structures that contain no inherent risk are frequently unattractive to potential policyholders.

Meanwhile, the China Insurance Regulatory Commission (CIRC) continues the rollout of its new regulatory framework with the publication of a set of reporting templates. It is noteworthy that CIRC's regulatory framework contains a variety of counter-cyclical measures.

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International

Key Developments

Updated Frequently Asked Questions on ComFrame *- IAIS* *April 26, 2016* *Type of Information: FAQ*	The International Association of Insurance Supervisors (IAIS) published its updated frequently asked questions (FAQ) on the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). ComFrame is a set of international supervisory requirements focusing on the effective group-wide supervision of internationally active insurance groups (IAIGs). ComFrame is built and expands upon the high-level requirements and guidance set out in the IAIS Insurance Core Principles (ICPs), which generally apply on both a legal entity and group-wide level. ComFrame will necessarily be more specific than the ICPs but is not intended to be a highly prescriptive set of rules. Where existing regulation and supervisory processes limit comparability, ComFrame is intended to foster commonality. ComFrame sets out a comprehensive range of qualitative and quantitative requirements specific to IAIGs. *Keywords: ComFrame, IAIG, ICPs*
Monthly Newsletter *- IAIS* *April 20, 2016* *Type of Information: Report*	This month's IAIS newsletter presents updates on the 2016 field testing exercise and highlights that the work on global systemically important insurer (G-SII) methodology has achieved an important milestone. The IAIS launched the G-SII data collection exercise on April 15. This marks an important milestone in the 2016 G-SII designation process, which will be based on the revised G-SII Assessment Methodology, following the consultation issued in November 2015. Additionally, the Capital, Solvency and Field Testing Working Group (CSFWG) is focused on completing its work so that the data request for the 2016 field testing exercise can be released on the scheduled date of May 20, 2016. A draft Phase 2 field testing package (including Insurance Capital Standards, or ICS, capital requirement calculation, Margin Over Current Estimate and Calibration data templates) was released to field testing volunteers by March 24, 2016. In addition to the field testing exercise, the ICS consultation will be launched in July 2016 and have a three-month consultation period. Work on this has also commenced and will be discussed at the CSFWG meeting in Tokyo. At the same time the ICS consultation document is published, the IAIS intends to publish the field testing package for all stakeholders. This month's newsletter also describes the latest initiatives the IAIS is undertaking to increase its engagement with stakeholders. *Keywords: CSFWG, G-SII, ICS*

Adoption of Guiding Principles for Islamic Reinsurance

- IFSB

April 12, 2016

Type of Information: Statement

The Council of the Islamic Financial Services Board (IFSB) approved the adoption of a new standard, Guiding Principles for Retakāful or Islamic Reinsurance (IFSB-18).

IFSB-18 aims to provide the regulatory and supervisory authorities (RSAs) and market players of the Takāful industry with guidance relating to Retakāful. IFSB-18 identifies and sets forth a set of basic principles and best practices pertaining to Retakāful activities of both Takāful and Retakāful operators. In particular, the key objectives of IFSB-18 are to:

» Provide a basis for RSAs to set rules and guidance on the operational framework of entities undertaking inward Retakāful activities

» Outline a basis for RSAs to supervise Takāful and Retakāful undertakings' use of outward Retakāful arrangements

» Suggest recommended best practices for Retakāful and Takāful operators and their RSAs to help address regulatory issues concerning Retakāful

IFSB-18 provides guiding principles on the conduct of the Retakāful business and these guiding principles touch important elements of the Retakāful practice, including governance, Sharī`ah principles, transparency, disclosure, and supervisory review process. IFSB-18 also delineates relevant regulatory standards and practices that are to be implemented alongside the aforementioned guiding principles, which include the suitable adoption of Core Principles issued by IAIS to ensure prudence in Retakāful regulatory supervision, business, and operations.

IFSB-18 draws upon the results of an industry-wide survey conducted by the IFSB and highlights the distinguishing features of various structures being used in various jurisdictions for offering Retakāful solutions. Furthermore, it provides highlights on various dimensions of Retakāful arrangements, which include inward and outward Retakāful as well as co-Takāful. Other pertinent issues covered in IFSB-18 are Retakāful windows, business undertaking model, and the many types of Retakāful arrangements.

Since the launching of its work program to expand its coverage of its standards to the Takāful sector, the IFSB has issued three standards covering this sector. IFSB-18 expands the appropriate governance and risk management principles to accommodate the Retakāful sector.

Links: Press Release, Guiding Principles
Keywords: IFSB-18, Islamic Reinsurance

Updated Glossary of Terms and Definitions

- IFSB

April 06, 2016

Type of Information: Statement

The IFSB released an updated glossary of terms and definitions used in its standards and other publications (in both English and Arabic languages). This glossary will be periodically updated as more terms and definitions are added to the IFSB standards and publications.

Links: Press Release, Updated Terminologies and Definitions
Keywords: Glossary, Islamic Banking, Islamic Insurance

First Webinar on Insurance Contracts Standard

- IASB

April 04, 2016

Type of Information: Statement

The International Accounting Standards Board (IASB) completed, in January 2016, its planned technical decisions for the forthcoming insurance contracts standard. The IASB is expected to publish a series of webinars providing an overview of the forthcoming standard. The first webinar, which has been already published, talks about the need for change and the history of the project. Future webinars will cover the following:

» What is an insurance contract?

» Initial measurement of insurance contracts

» Subsequent measurement of insurance contracts

» Modifications to the general model: variable fee contracts

» Other modifications to the general model

» Presentation and disclosure

» Applying the Standard for the first time

Keywords: Insurance Contracts, Technical Decisions, Webinars

Global Financial Stability Report for the Insurance Sector

- IMF

April 04, 2016

Type of Information: Report

The International Monetary Fund (IMF) published its Global Financial Stability Report on the Insurance Sector on April 04. The material in the Insurance Sector Report was also included, in expanded form, in the overall IMF Global Financial Stability Report which was released on April 13.

Source of risk in insurance sector

The report concludes that the life insurers in major advanced economies have contributed more risk to the financial system as a whole since the global financial crisis. This is largely because smaller, weaker, and less capitalized firms in a number of countries appear to have taken on more higher-risk asset investments in recent years to resurrect their fortunes. Moreover, companies with a greater proportion of minimum investment-return guarantee products, such as investment-oriented life insurance policies with minimum guarantees or certain types of annuities and higher levels of guarantees, have investment portfolios with larger amounts of risky assets.

Moreover, life insurers have longer-dated liabilities than assets; therefore, a drop in interest rates affects them adversely. The IMF said the prolonged period of very low interest rates has heightened this vulnerability, especially in the U.S. and Europe. Other factors also may contribute to rising systemic risk, according to the IMF. Changes in product offerings, such as the increased reliance on annuities in the U.S., may explain more sensitivity to low interest rates, and the use of derivatives may explain their greater exposure to the rise and fall in financial markets.

Insurers are large institutional investors holding over USD 24 trillion in global assets and longer-term liabilities and they have become more exposed to swings in asset prices in recent years. This means that in the event of a large shock, such as a sharp drop in asset prices, insurers are unlikely to fulfill their role to channel savings to borrowers, precisely when other parts of the financial system may also fail to do so. Low interest rates are another important source of risk for insurers. The lower the level of interest rates, the more vulnerable insurers become to further interest rate changes.

Policy lessons

The analysis, which is a part of the Global Financial Stability Report, suggests that supervisors and regulators should tackle risks by looking more systematically at the role the insurance sector plays in the financial system, through a macro-prudential approach. The IMF said policymakers, regulators, and supervisors must go beyond guarding against the solvency and contagion risks of individual firms, and address the fact that insurers are increasingly vulnerable to the same risks as other parts of the financial system. The analysis also suggests the need for attention to the performance and behavior of smaller and weaker firms. Even if less systemic individually, jointly such firms can propagate shocks if they act similarly. Moreover, they may be "too many to fail."

These developments call for a greater emphasis on macro-prudential policies. Insurance supervisors should look not only at individual companies, but also at commonalities and the impact among firms and countries. Measures, such as capital buffers, which can help avoid insurers jointly curtailing their financing to the rest of the system, could be helpful.

Valuing insurers' assets and liabilities at market prices can increase transparency and encourage greater asset-liability matching, according to the IMF. However, regulators must pair valuation rules with counter-cyclical measures, such as the type of adjustments foreseen in the European Union's Solvency II regime, to avoid forced selling of assets by insurers in a downturn.

Links: Press Release, Global Financial Stability Report
Keywords: Global Financial Stability Report, Macro-Prudential Policy

Europe

European Union

Key Developments

Final Report (Feedback Statement) on the Public Consultation on a Pan-European Personal Pension Product *- EIOPA* *April 27, 2016* *Type of Information: Report*	The European Insurance and Occupational Pensions Authority (EIOPA) published a final report (feedback statement) on its public consultation related to the creation of a standardized pan-European Personal Pension Product (PEPP). The public consultation was conducted in July–October 2015 (Consultation paper 15/006). This document does not relate to the current public consultation CP-16/001 on EIOPA's advice on the development of a European Union (EU) Single Market for personal pension products (PPPs). *Links: News Release, Final Report on Consultation 15/006* *Keywords: PEPP, PPPs*
Q&A on Regulation *- EIOPA* *April 27, 2016* *Type of Information: Q&A*	EIOPA published new sets of questions and answers (Q&A) on: » Guidelines on group solvency » Final report on the implementing technical standards (ITS) on the templates for the submission of information to the supervisory authorities (CP-14-052) » Final report on the ITS on procedures, formats, and templates of the solvency and financial condition report (CP-14-055) *Links: News Release, Q&A on Regulation* *Keywords: CP 14/052, CP 14/055, Group Solvency*
Status Report on Progress Achieved in Building Capital Markets Union *- EC* *April 25, 2016* *Type of Information: Report*	The European Commission (EC) published the first status report for progress achieved in building a Capital Markets Union since the launch of the Action Plan in September 2015. As per the report, the first measures are already having an impact on the ground—new rules have just entered into force to support investment by insurers and reinsurers in infrastructure projects. Additionally, the legislative proposal to restart securitisation markets in Europe was agreed in record time by member states in December 2015. A proposal was also presented to simplify prospectus requirements and reduce burdens for companies issuing shares and bonds. The Commission hopes that these proposals will be agreed upon swiftly by the co-legislators. A cumulative assessment of the financial services legislation (the Call for Evidence) has been conducted to check that the legislative framework is working to support growth across the EU. A public consultation has also been launched on business restructuring and insolvency to tackle some of the longer-term issues that are holding back jobs and growth in the EU. There are plans to take further actions to promote personal pensions. The Commission will shortly publish a report on the development of crowdfunding markets in the EU. Measures will also be proposed to stimulate European venture capital markets, including a revision of the venture capital legislation and work on a venture capital "fund of funds." Additionally, there are plans to launch a public consultation to gather views on how the passporting rules for the cross-border distribution of investment funds can be improved. *Links: Press Release, Capital Markets Union: First Status Report* *Keywords: Action Plan, Capital Markets Union*

Consultation on Methodology to Derive Ultimate Forward Rate Under Solvency II

- EIOPA

April 20, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The European Insurance and Occupational Pensions Authority (EIOPA) published a consultation paper on the methodology to derive the ultimate forward rate (UFR) and its implementation.

According to the Solvency II legislative framework, the UFR will be stable over time and will only change as a result of changes in long-term expectations. The proposed UFR methodology strives for a balance between the stability of the UFR and the need to adjust the UFR when long-term expectations change about interest rates and inflation.

Comments Due Date: July 18, 2016
Effective Date: N/A
First Reporting Date: N/A

Links: News Release, Consultation Paper
Keywords: Solvency II, UFR

Consultation on Treatment of Infrastructure Corporates Under Solvency II

- EIOPA

April 15, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

EIOPA published a consultation paper on the request by the European Commission to EIOPA, for further technical advice on the identification and calibration of other infrastructure investment risk categories, that is ,infrastructure corporates. EIOPA welcomes views on the following proposals:

- Analysis of appropriate calibrations for investments in infrastructure corporates within the Solvency II standard formula (contained in chapters 5-7of the consultation paper)
- Criteria to identify safer investments in infrastructure corporates (chapter 8)
- Revisions to the scope and criteria for infrastructure projects indicated in EIOPA's previous advice (chapter 9)
- Risk management requirements (chapter 10)

During the development of the draft Advice on infrastructure corporates, there has been an active dialog with stakeholders. A Call for Evidence was held between November 19–December 10, 2015 and a roundtable discussion took place on February 12, 2016 to outline the conducted analysis and initial proposals.

Comments Due Date: May 16, 2016
Effective Date: N/A
First Reporting Date: N/A

Links: News Release, Consultation Paper
Keywords: Infrastructure Corporates, Solvency II

Recommendation to Enhance Risk Assessment and Transparency of Pension Funds

- EIOPA

April 14, 2016

Type of Information: Statement

EIOPA published its opinion on a common framework for risk assessment and transparency for Institutions for Occupational Retirement Provision (IORPs). The Opinion concludes a cycle of almost three years of EIOPA's own-initiative work and is addressed to the EU co-legislators (European Parliament and Council) and the European Commission.

EIOPA recommends strengthening the European regulation applicable to IORPs with a standardized risk assessment to calculate the impact of common, pre-defined stress scenarios on the common framework's balance sheet of a pension fund. The common framework sets out that assets and liabilities on a balance sheet(that is set up for the very purpose of standard risk assessment), have to be valued on a market-consistent basis, and include all available security and benefit adjustment mechanisms, such as sponsor support, pension protection schemes, and benefit reductions. However, at this point, EIOPA does not advise on harmonizing capital or funding requirements.

EIOPA is of the opinion that IORPs should be transparent toward plan members, sponsors, and other interested parties through regular public disclosure of the market-consistent balance sheet and the outcome of standardized risk assessment. Consequently, national supervisors should be provided with sufficient powers to act in response to the conclusions of the standardized risk assessment. To minimize the burden on smaller IORPs, EIOPA recommends that the standardized risk assessment is applied in a proportionate manner, allowing for simplified methods and approaches. In addition, EIOPA's Opinion allows for the possibility to exempt small IORPs and to lower the frequency of their risk assessment from annually to once every three years.

Links: News Release, Opinion
Keywords: IORP, Standardized Risk Assessment, Stress Testing

Consultation on Amendments for the Supervisory Reporting Templates and Guidelines on Reporting and Disclosure Under Solvency II

- EIOPA

April 05, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

EIOPA published a consultation paper on amendments to the Implementing Technical Standards (ITS) on the templates for submission of information to the supervisory authorities and to EIOPA Guidelines on Reporting and Disclosure, following the amendment to the Solvency II Delegated Act.

This amendment introduces tailored treatments to insurers' investments in infrastructure, in European Long-Term Investment Funds (ELTIFs), and in equities traded through multilateral trading platforms. The amendments proposed to supervisory reporting templates and Guidelines on Reporting and Disclosure aim to collect meaningful information for supervision, while ensuring the smallest impact possible on the implementation efforts of industry and national competent authorities. EIOPA is also using this opportunity to correct ITS templates used for the submission of information to supervisory authorities. These corrections address minor drafting mistakes to avoid misinterpretation of the text.

In particular, EIOPA would like to inform that it had considered introduction of additional limited amendments to identify the investments in ELTIF. Some undertakings may prefer to invest in these type of investments instead of investing directly in infrastructure investments or other long-term asset classes. In such cases, it would be important for supervisors to have access to this information. A possible solution to capture this situation could be a clear identification of ELTIF through a new column in an existing reporting template, although other solutions exist. EIOPA is seeking comments on these possibilities.

Comments Due Date: May 03, 2016
Effective Date: N/A
First Reporting Date: N/A

Links: News Release, Consultation Paper
Keywords: ELTIF, Reporting, Solvency II

Capital Markets Union: Making it Easier for Insurers to Invest in Infrastructure; Regulation on Calculation of Regulatory Capital Requirements for Several Categories of Assets Held by Insurance and Reinsurance Undertakings

- EC

April 01, 2016

Type of Information: Regulation

Regulatory Status: Final Rule

As a result of one of the first measures in the Capital Markets Union Action Plan, insurers will now find it more attractive and cheaper to invest in infrastructure projects. The EC proposed an amendment to the EU prudential rules, known as Solvency II, as part of the Capital Markets Union Action Plan launched on September 30, 2015. This amendment to a delegated act under Solvency II (Regulation 2016/467), which concerns the calculation of regulatory capital requirements for several categories of assets held by insurance and reinsurance undertakings, was published in the *Official Journal of the European Union* and entered into force on April 02, 2016. This legislation is formally an amendment to the Solvency II Delegated Act (Commission Regulation (EU) 2015/35) and was published, following a six month scrutiny period by the Council and the European Parliament. Solvency II is the EU-wide prudential framework for the insurance sector.

Based on expert advice from EIOPA, this delegated act lowers certain requirements for investing in so–called qualifying infrastructure projects. In particular, it lowers the risk charges for insurers' equity and debt investments in these projects, under the standard formula for calculating capital requirements in Solvency II. The risk calibration for investment in unlisted equity shares of such projects has been reduced from 49% to 30%. Risk charges for investments in infrastructure debt were also reduced by up to 40%.

This act also covers insurers' investments in European Long-Term Investment Funds (ELTIFs). These investments will benefit from the same capital charges as equities traded on regulated markets, lower than that for other equities, bringing them in line with investments in European Venture Capital Funds and European Social Entrepreneurship Funds. Equities traded on multilateral trading facilities will also benefit from the same capital charge as equities traded on regulated markets. Transitional provisions for equity investments, phasing in Solvency II capital charges over seven years, are extended to unlisted equities.

Investment in infrastructure projects is essential to support economic activity and growth in Europe. By removing the challenge to investment experienced by insurance companies, the measures coming into force will mobilize private-sector investment, which is a key objective of the Investment Plan for Europe. The insurance industry is well-equipped to provide long-term finance by investing in equity shares as well as loans of infrastructure projects, but currently less than 1% of their total assets are allocated for this purpose. As a result of this change to Solvency II, insurers will have to allocate less capital and find it more attractive to increase investment and play a bigger role in European infrastructure projects.

Comments Due Date: N/A
Effective Date: April 02, 2016
First Reporting Date: N/A

Links: Press Release, CMU Action Plan, Regulation (EU) 2016/467
Keywords: Capital Markets Union, ELTIF, Solvency II

Amendment to the Guideline on Monetary and Financial Statistics

- ECB

April 01 , 2016

Type of Information: Guideline

The guideline (EU) 2016/450, amending guideline (ECB/2014/15) on Monetary and Financial Statistics, or MFS (ECB/2015/44), was published in the *Official Journal of the European Union*.

The guideline stipulates that it is necessary to update the compilation of MFS in view of the fact that insurance corporations will be subject to statistical reporting requirements, starting with reference period of the first quarter of 2016. Hence, it is necessary to start compiling statistics on insurance corporations within the framework set out in ECB/2014/15 and amend the guideline accordingly.

This guideline will take effect on the day of its notification to the national central banks of the member states whose currency is the Euro. These national central banks shall comply with the guideline from January 01, 2016.

Link: Guideline
Keywords: MFS, Statistics

United Kingdom

Key Developments

Feedback to General Insurance Stress Test 2015

- PRA

April 25, 2016

Type of Information: Report

The Prudential Regulation Authority (PRA) sent a letter to the CEOs of participating firms with feedback for the General Insurance Stress Test for 2015.

The letter sets out the results of that exercise, including a summary of the potential for market-wide impacts and learnings related to difficult-to-assess scenarios such as cyber losses. The results of the exercise will help inform the ongoing development of future insurance stress test exercises, with the next exercise likely to be in 2017. The 26 largest general insurers (including Lloyd's syndicates) were asked to run five market-wide stress tests to assess market resilience as well as reliance on reinsurance. The stress tests covered natural and man-made catastrophes as well as an economic shock consistent with the Financial Policy Committee banking stress test developed in 2015.

Link: Letter
Keywords: Solvency II, Stress Testing

Solvency II: Matching Adjustment

- PRA

April 15, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

PRA launched a consultation (CP16/16) that seeks feedback on a draft supervisory statement setting out PRA's expectations of firms in relation to the application of the matching adjustment for calculating technical provisions, including in the context of applications for matching adjustment approval and the ongoing management of matching adjustment portfolios under Solvency II.

The draft supervisory statement sets out the PRA's proposed expectations of firms with regard to the matching adjustment in the following areas:

» Annuity assets purchased in a secondary annuity market

» Ongoing matching adjustment compliance

» Breach of matching adjustment requirements

» Changes to matching adjustment portfolios

The proposals in this consultation contain the PRA's expectations of firms in relation to applications for matching adjustment approval and on issues concerning the eligibility of annuity assets purchased in a secondary market. The proposals also contain the PRA's expectations on issues to be considered once matching adjustment approval has been granted, such as the issues of ongoing matching adjustment compliance, dealing with matching adjustment breaches, and what happens when there are changes to matching adjustment portfolios.

Comments Due Date: July 15, 2016
Effective Date: N/A
First Reporting Date: N/A

Links: Notification, Consultation Paper (CP16/16)
Keywords: CP16/16, Matching Adjustment, Solvency II

Recalculation of the Transitional Measure on Technical Provisions Under Solvency II

- PRA

April 15, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

PRA proposed (CP15/16) a supervisory statement that sets out the PRA's expectations for the recalculation of the transitional measure on technical provisions (TMTP). Under the TMTP, the Solvency II Technical Provision is gradually introduced (linearly over 16 years) to replace the equivalent Solvency I liability value. This supervisory statement relates to updating the Solvency I liability value.

This consultation is of interest to all UK insurance firms within the scope of Solvency II and to the Society of Lloyd's. In particular, it is relevant to firms that have been granted approval to use, or have been considering applying for, the TMTP. The Solvency II Directive allows firms to apply to their supervisory authority for approval to use the TMTP. Under the Directive, recalculation is permitted, at the initiation of either the firm or the PRA:

» every 24 months, or

» more frequently where the risk profile of the firm has materially changed.

The purpose of the draft supervisory statement is to provide clarity on the PRA's expectations for, and process applicable to, recalculations of this transitional measure. It should be read in conjunction with the Solvency II Firms: Transitional Measures Part of the PRA Rulebook, the rules in the rest of the Solvency II Firms section of the PRA Rulebook, the Solvency II Regulations 2015 (2015/575), and with the EIOPA Level 3 Guidelines.

Comments Due Date: May 13, 2016
Effective Date: N/A
First Reporting Date: N/A

Links: Notification, Consultation Paper
Keywords: CP15/16, Solvency II, TMTP

Americas

United States

Key Developments

Proposal for Data Collection on Consolidated Financial Statements for Insurance Nonbank Financial Companies

- FED

April 20, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The Board of Governors of the Federal Reserve System (FED) proposed to collect financial data on a consolidated basis from the nonbank financial companies (NBFCs) through the form FR 2085.

The proposed FR 2085 leverages the existing framework of the Board's Consolidated Financial Statements for holding companies (FR Y-9C; OMB No. 7100-0128), which collects similar information from bank holding companies, savings and loan holding companies, and securities holding companies (collectively, holding companies). However, the proposed FR 2085 is tailored to reduce the burden on, and reflect the business and risks of insurance NBFCs. Data items that are specific or unique to holding companies were not included in the FR 2085. Data items that are either more significant or unique to insurance were added. Where insurance NBFCs and holding companies hold similar assets and liabilities, existing FR Y-9C data definitions and presentation were included in the proposed FR 2085 to facilitate horizontal comparisons.

The reporting frequency for this is quarterly, beginning with the reporting period ending on June 30, 2017. The reporters include NBFCs:

» that the Financial Stability Oversight Council (FSOC) has determined, pursuant to section 113 of the Dodd-Frank Act, should be supervised by the Board and subject to enhanced prudential standards, and

» with at least 40% of total consolidated assets related to insurance activities as of the end of either of the two most recently completed fiscal years (insurance NBFC), or as otherwise ordered by the Board.

As of the date of publication of this notice, American International Group, Inc., and Prudential Financial, Inc., would be required to comply with the proposed information collection, if adopted.

Comments Due Date: June 24, 2016
Effective Date: N/A
First Reporting Date: N/A

Link: Proposed Rule
Keywords: Dodd-Frank Act, FR Y-9C, FR 2085, NBFC

Canada

Key Developments

A New Chapter in Life Insurance Capital Requirements: Remarks by Mark Zelmer of Office of the Superintendent of Financial Institutions

- OSFI

April 21, 2016

Type of Information: Speech

While addressing the Chartered Financial Analyst (CFA) Society Toronto, Mark Zelmer of the Office of the Superintendent of Financial Institutions (OSFI) emphasized the importance of understanding the prudential regulatory framework and discussed the Life Insurance Capital Adequacy Test (LICAT) guideline.

On March 31, OSFI (as detailed in last month's Insurance Regulatory Insight) released for public comment an all-new, draft regulatory capital guideline for federally regulated life insurance companies. This new guideline is being called the Life Insurance Capital Adequacy Test, or LICAT guideline, to distinguish it from the current Minimum Continuing Capital Surplus Requirement (MCCSR) guideline. LICAT is largely consistent with Solvency II and the emerging international standards. Mr. Zelmer compared the LICAT guideline to regulatory capital frameworks in place in other jurisdictions.

OSFI and its partners first developed the MCCSR and subsequently the LICAT guideline without the benefit of a uniform international capital standard. This partly reflects that insurance markets and insurer investment strategies can vary OSFI significantly from jurisdiction to jurisdiction. For example, major life insurers in Canada and the United States stand out from many of their overseas counterparts by offering longer-term insurance products whose pricing is often fixed at the outset and contain embedded guarantees (such as minimum interest rate guarantees) in savings and annuity products. Additionally, major North American life insurers are often more active managers of the investment assets backing their insurance obligations. These differences need to be kept in mind in the design of regulatory capital frameworks.

When the MCCSR was first introduced, it was an international pioneer in many respects in applying a risk-based solvency framework to life insurers. Newer frameworks like Solvency II in Europe have gone further in this respect, and the development of the draft LICAT guideline has certainly benefited from lessons learned in the construction of those frameworks. He also highlighted that the newer insurance capital frameworks around the world are generally converging toward more sophisticated risk-based frameworks. Thus, it is no surprise that the LICAT is largely consistent with Solvency II and the proposed new ICS being developed by the IAIS.

However, important differences remain, which is apparent in how different capital frameworks handle the current environment of exceptionally low interest rates and interest rate volatility more generally. One notable approach is the US capital framework, in which Pillar 1 regulatory capital requirements and available capital only adjust to interest rate movements when insurance liabilities and their supporting assets mature and are replaced with new assets and liabilities. Another important point of reference is Solvency II, where initial versions of that regulatory capital framework were very sensitive to interest rates due to their heavier reliance on fair-valuation of cash flows on both sides of the balance sheet. However, more recent versions now include several measures that serve to mitigate excessive volatility in regulatory capital positions.

OSFI and its partners in Canada have opted for a practical middle ground. The draft LICAT guideline relies on observable market prices for valuing the asset side of the balance sheet and liabilities that are within the range of observable market prices. This approach helps to address any excessive volatility in regulatory capital requirements, highlighted Mr. Zelmer.

Link: [Speech]
Keywords: LICAT, MCCSR, Solvency II

Latin America and the Caribbean

Key Developments

Examining the State of Financial Development in Latin America and the Caribbean and Further Advancements

- IMF

April 07, 2016

Type of Information: Report

The IMF published a working paper examining the state of financial development in the Latin America and Caribbean (LAC) region as well as potential growth and stability implications from further development.

The analysis suggests that access to financial institutions has expanded notably in the past decade and the region compares favorably with other emerging market regions on this dimension. The region, however, continues to lag behind peers on broader financial development, especially with respect to markets, though there is substantial heterogeneity across countries. Financial systems in many LAC countries are also underdeveloped relative to their macroeconomic fundamentals. Further financial development could convey net benefits to the region, provided there is adequate regulatory oversight to prevent excesses.

Financial development has proven difficult to measure in a comprehensive way. Typical proxies in the literature have included the ratio of private credit to GDP and, to a lesser extent, stock market capitalization. These traditional indicators, however, are too narrow to capture the broad spectrum of financial sector activities such as non-banking financial institutions (pension funds, insurance companies, mutual funds). To better capture different facets of these trends, a new comprehensive and broad-based index of financial development was developed by the IMF. The index contains two major components: financial institutions and financial markets. Each component is broken down into access, depth, and efficiency sub-components.

Link: Working Paper
Keywords: Financial Development, LAC

Asia Pacific

China

Key Developments

Issuance of the Insurance Group Supervision and Statistics System *- CIRC* *April 13, 2016* *Type of Information: Regulation* *Regulatory Status: Final Rule*	The China Insurance Regulatory Commission (CIRC) issued the Insurance Group Supervision and Statistics System (IGSS), which is a reporting system that includes seven tables: » Tables 1 and 2 address the Insurance Group's consolidated financial and income statements » Tables 3 to 7 address the insurance group risk monitoring, business segments, significant transactions (greater than 1% of assets or 5 million Chinese yuan), counterparty risk, and group structure *Comments Due Date: N/A* *Effective Date: July 01, 2016* *First Reporting Date: N/A* *Links (to original language material): Notification, IGSS, Excel Templates* *Keywords: IGSS, Reporting, Statistics*

New Zealand

Key Developments

Review of the Insurance Prudential Supervision Act 2010 *- RBNZ* *April 12, 2016* *Type of Information: Statement*	The Reserve Bank of New Zealand (RBNZ) released the terms of reference for a review of the Insurance Prudential Supervision Act 2010 (IPSA). The RBNZ will review the IPSA during 2016-2017 and will undertake work on defining the scope of the review over 2016. Formal public consultation is expected to commence in the fourth quarter of 2016, with the release of an Issues Paper. The Reserve Bank will engage the industry over 2017, prior to issuing an Options Paper for public consultation. If legislative change occurs, it would be in 2018 at the earliest. The review will be undertaken, in the context of the current legislative purposes of IPSA, to promote the maintenance of a sound and efficient insurance sector and to promote public confidence in the insurance sector. *Links: Notification, Terms of Reference* *Keywords: IPSA, RBC*

Glossary

CIRC	China Insurance Regulatory Commission
ComFrame	Common Framework for the Supervision of Internationally Active Insurance Groups
CSFWG	Capital, Solvency and Field Testing Working Group
EC	European Commission
ECB	European Central Bank
EIOPA	European Insurance and Occupational Pensions Authority
ELTIFs	European Long-Term Investment Funds
EU	European Union
FAQ	Frequently Asked Questions
FED	Board of Governors of the Federal Reserve System
FSOC	Financial Stability Oversight Council
G-SII	Global Systemically Important Insurer
IAIG	Internationally Active Insurance Groups
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
ICPs	Insurance Core Principles
ICS	Insurance Capital Standards
IFSB	Islamic Financial Services Board
IGSS	Insurance Group Supervision and Statistics System
IMF	International Monetary Fund
IORP	Institution for Occupational Retirement Provision
IPSA	Insurance Prudential Supervision Act 2010
ITS	Implementing Technical Standards
LAC	Latin America and Caribbean
LICAT	Life Insurance Capital Adequacy Test
MCCSR	Minimum Continuing Capital and Surplus Requirements
MFS	Monetary and Financial Statistics
NBFC	Nonbank Financial Company
OMB	Office of Management and Budget
OSFI	Office of the Superintendent of Financial Institutions
PEPP	Pan-European Personal Pension Product
PPP	Personal Pension Product
PRA	Prudential Regulation Authority
Q&A	Questions and Answers
RBC	Risk-Based Capital
RBNZ	Reserve Bank of New Zealand
RSAs	Regulatory and Supervisory Authorities
TMTP	Transitional Measure on Technical Provisions
UFR	Ultimate Forward Rate