MOODY'S ANALYTICS

INSURANCE NEWSLETTER

Regulatory Insight

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Regulatory News will soon be digital, available early next year on MoodysAnalytics.com. News will be delivered as it happens, to provide you with a timely way to stay up to date with regulatory news and developments.

Until then you will continue to receive this monthly email.

In this month's edition of the newsletter, you will find details of the recent major developments taking place across the globe.

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

This month's news items highlight a growing theme—structuring the insurance regulatory regime to encourage particular behaviors. In Europe, the recent creation of a new high quality infrastructure asset class with a favorable stress treatment has increased the attractiveness of such investments to insurers. The effect of such changes is likely to be particularly significant at a time when national governments may not be in a position to fund such investments themselves. This month we see two different examples of similar structuring activity. The IMF, in their recent Article IV consultation with Chile, are encouraging institutional investors to give preference to investing in companies with good governance standards. Meanwhile, the Australian Prudential Regulation Authority (APRA) has highlighted sustainability as a key theme in its submission to a Parliamentary Committee enquiry into the life insurance industry. While APRA has not included sustainability in regulation, the knowledge that they are interested in it might have an influence on insurers' activities.

Of course, the primary aim of prudential insurance supervision remains the sound operation of the insurance industry. In some countries the role of conduct regulator has been separated from the role of prudential regulator as under certain circumstances, these two roles can conflict. In this context, it is interesting to see the publication by the United States Federal Insurance Office, of its fourth report on the insurance industry and its first report on the protection of consumers and access to insurance.

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International

Key Developments

Monthly Newsletter

- IAIS

November 23, 2016

Type of Information: Newsletter

The International Association of Insurance Supervisors (IAIS) published its November 2016 newsletter. The key highlights of this issue include a discussion on the implementation of Insurance Core Principles (ICPs) and the papers under development, including:

» The two application papers, one addressing product oversight and the second digital technology

» An application paper, in partnership with the International Actuarial Association, on the topic of actuarial practices in inclusive insurance

» An issues paper, in partnership with the World Bank, on index-based insurance

» An application paper on mutuals, cooperative, and community-based organizations (final stages of development)

The newsletter highlighted that members are approaching the IAIS with questions on the implementation of IAIS supervisory material. Moreover, demand from supervisors for implementation support is increasing, as evidenced by the increasing participation in IAIS assessments, registration in training programs, and increasing demand for IAIS financial support for training seminars. The IAIS believes that as supervisory material for Internationally Active Insurance Group (IAIGs) and Global Systemically Important Insurers (G-SIIs) become more broadly relevant for IAIS members, this demand will increase further. There is an increasing orientation of standard-setting bodies, international financial institutions, and national authorities toward the implementation of supervisory material. The key challenge for the IAIS is in considering how to build off its accomplishments in the implementation area; thus, the Implementation Committee will undertake a review of the Coordinated Implementation Framework in 2017.

The newsletter states that supporting the implementation and practical application of IAIS supervisory material is a key strategic objective of the IAIS. ICPs are the primary set of standards IAIS develops, along with the supervisory material for IAIGs and further material relevant to G-SIIs. Two of the seven IAIS strategic high-level goals focus on implementation-related activities: enhancing effective supervision (Goal 4) and enhancing implementation and observance of the ICPs (Goal 6). In support of these goals, the IAIS conducts a range of activities that can be categorized as follows:

» Assessment and implementation monitoring, primarily through the self-assessment and peer review program, though self-reporting of implementation of G-SII policy measures will begin in 2017

» Capacity building and supervisory development, including support for regional seminars, the FIRST ONE program, and Core Curriculum review and revision

» Financial inclusion, providing practical guidance to supervisors respecting relevant issues

» Supervisory co-operation, primarily through the Multilateral Memorandum of Understanding and by supporting members

Keywords: ICPs, Implementation

Lists of Global Systemically Important Insurers for 2016

- FSB

November 21, 2016

Type of Information: Statement

The Financial Stability Board (FSB) published the list of global systemically important banks and insurers (G-SIIs) for 2016.

List of G-SIIs

The FSB, in consultation with the IAIS and national authorities, identified nine insurers as G-SIIs. Insurers on the 2016 G-SII list remain the same as those on the 2015 list and will be subject to the following internationally agreed standards:

» ***HLA requirements.*** These will be revised to reflect further work by the IAIS on the G-SII assessment methodology and they will be applied to the G-SIIs identified in November 2017, starting from January 2019.

» ***Enhanced group-wide supervision.*** This includes for the group-wide supervisor to have direct powers over holding companies, and to oversee the development and implementation of a Systemic Risk Management Plan and a Liquidity Management Plan.

» ***Group-wide recovery and resolution planning and regular resolvability assessments.*** For the nine G-SIIs identified this year, the Resolvability Assessment Process will be conducted starting in 2017.

Links: Press Release: G-SIIs List, 2016 G-SIIs List
Keywords: G-SII

Europe

European Union

Key Developments

Letter to European Supervisory Authorities to Amend Rules on Packaged Retail and Insurance-Based Investment Products and Develop Guidance

- EC

November 14, 2016

Type of Information: Statement

The European Commission (EC) sent a letter to the European Supervisory Authorities (ESAs) on setting out the proposed amendments to the draft Regulatory Technical Standards (RTS) on Key Information Documents (KIDs) for Packaged Retail and Insurance-Based Investment Products (PRIIPs), accompanied by the amended RTS. The EC invited the ESAs to submit an opinion on amending the RTS, based on the proposed amendments, within six weeks. The EC also asked the ESAs to develop the guidance in line with the relevant provisions of the RTS on the practical application of credit risk mitigation factors for insurers.

In April 2016, the ESAs had jointly submitted, to the EC, the draft RTS, which was endorsed by the EC. The Council of the European Union (EU) raised no objections; however, the European Parliament rejected the RTS on September 14, 2016. The EC considers that amendments to the RTS provisions on multi-option PRIIPs, performance scenarios, and the comprehension alert are required to address the concerns expressed by the European Parliament.

The EC expects the PRIIPs rules to enter into force on January 01, 2018, instead of January 01, 2017.

Links: News Release, Letter on Proposed Amendments, RTS on Multi-Option PRIIPs
Keywords: KID, PRIIPs

Speech of Vice President Dombrovskis on Strengthening the Financial Sector

- EC

November 09, 2016

Type of Information: Speech

The EC Vice President Valdis Dombrovskis spoke about building a safe and competitive financial sector and supporting investment and sustainable growth in Europe. He presented his views at the Structured Dialogue with the European Parliament's Committee on Economic and Monetary Affairs (ECON).

Mr. Dobrovskis highlighted the plan to adopt a proposal to amend the Capital Requirements Regulation (CRR) and Capital Requirements Directive IV (CRD IV). "This proposal delivers on two fronts," he said. First, it will tackle the remaining risks in the banking sector by implementing international standards in a way that works for European businesses lending to the wider economy. Second, the EC is revising its legislation to make it more proportionate to the amendments. Building on the work of the European Parliament and Burkhard Balz (who is a member of the European Parliament), the EC wants to follow through on the Call for Evidence on all financial services legislation. Mr. Dombrovskis emphasized the need to consider adjustments to increase funding to the wider economy. Additionally, the EC will propose some immediate changes through reviews of the CRR and the European Market Infrastructure Regulation (EMIR).

Mr. Dombrovskis hopes an agreement will be reached on Money Market Funds (MMFs) by the end of the year. He expects that a balance will be struck between mitigating the risks of MMFs while maintaining them as a viable product meeting the needs of end investors. Mr. Dombrovskis also revealed that the EC will make a proposal on Central Counterparty (CCP) recovery and resolution by end of the year. The proposal will build on existing European rules (EMIR, and the Bank Recovery and Resolution Directive, BRRD). The EC wants to be as consistent as possible with existing recovery and resolution legislation and to respond to the specific features of CCPs. Next year, the EC plans to come up with proposals to update the macro-prudential framework. The EC will build on the responses received on the consultation to make the macro-prudential framework stronger.

Additionally, Mr. Dombrovskis briefly spoke about the PRIIPs Delegated Regulation, on which the European Parliament expressed its dissatisfaction. The EC has carefully assessed the European Parliament's resolution on PRIIPs. The EC has been working with the ESAs to address the concerns and has sent its proposals to the ESAs. This will allow the RTS to be re-proposed to the ECON without further delay. The EC has also proposed a twelve-month extension to the PRIIPs regulation to give companies more time to prepare for new rules coming into force and to allow time for the revised RTS to be finalized. This is done based on a shared understanding that Level 1 legislation will not be reopened.

Link: Speech
Keywords: CRD IV, CRR, EMIR, PRIIPs

Extension of Application Date of the Regulation on Key Information Documents for Packaged Retail and Insurance-Based Investment Products

- EC

November 09, 2016

Type of Information: Statement

The EC proposed an extension to the date of application of the regulation on KIDs for PRIIPs. This one-year extension is being proposed to ensure a smooth implementation for European consumers and to ensure legal certainty for the sector.

After the European Parliament rejected the RTS that underpin the format and methodology used to compile the KIDs, both the European Parliament and a large majority of member states also called for a postponement in the entry into application of the regulation. While the EC believes that the PRIIPs regulation is sufficiently clear as well as directly applicable on its own, its objectives would be better served by having the RTS on KIDs already in place. The RTS will be important in offering consumers the benefit of having KIDs that are more easily comparable and standardized. The delay gives issuers and distributors of PRIIPs products until January 01, 2018 to put the provisions in place.

The EC is working closely with the three ESAs to resubmit the revised RTS. The aim is to meet some of the concerns raised by the European Parliament, while not compromising the balance previously achieved. The EC has asked the ESAs to make targeted changes in certain areas (that is, multi-option products, performance scenarios, comprehension alert, and presentation of insurance-related costs). To ensure greater clarity for insurance companies, the EC is inviting the ESAs to develop guidance on the practical application of credit risk mitigation factors under the RTS for insurers. This guidance needs to be in line with the relevant provisions of the RTS and not alter their substance. The ESAs have six weeks to resubmit the revised RTS to the EC. The RTS will have to be adopted by the EC and then be subject to scrutiny by the European Parliament and the Council. The EC expects the revised PRIIPs framework to be in place during the first half of 2017 and for it to apply as of January 01, 2018.

The EC considers the PRIIPs regulation is a key piece of legislation that aims to improve the quality of information provided to consumers. It introduces a standardized factsheet, known as a Key Information Document (KID), which is designed to present the main features of an investment product in a simple and accessible manner. Via the KID, EU consumers will, for the first time, be able to easily compare the potential risks and rewards of investment products, funds, and investment-linked insurance policies.

Link: Press Release
Keywords: KID, PRIIPs

Project on Review of Standard Formula for the Solvency Capital Requirement Under Solvency II

- EIOPA

November 08, 2016

Type of Information: Statement

The European Insurance and Occupational Pensions Authority (EIOPA) launched a project dedicated to the review of the Solvency Capital Requirement (SCR) standard formula. This project will answer the two current priorities of the Call for Technical Advice from the EC on:

» Simplifications and proportionate application of the SCR requirements

» Removal of technical inconsistencies, that is, recalibration of certain risks and other technical issues

This project aims to ensure a proportionate and technically consistent supervisory regime for reinsurance undertakings and to look for possible simplifications in the SCR standard formula. EIOPA will suggest changes in methods, assumptions, and standard parameters as well as additional policy options. The timetable for the project is as follows:

» End of 2016 until beginning of 2017: Calling for information not collected via the reporting templates and public consultation of a draft discussion paper on the call for advice

» July 2017 until February 2018: Analyzing annual reporting data only available as of July 2017, consulting relevant stakeholders, and drafting final technical advice

» End of October 2017: Providing technical advice for items where annual reporting data is not required as long as the elements can be amended in EIOPA's final technical advice, to be delivered end of February 2018

» At the latest on February 28, 2018: Providing EIOPA's final technical advice to the EC

Links: Notification, Call for Technical Advice
Keywords: Review of SCR, Solvency II

Regulation on Packaged Retail and Insurance-Based Investment Products with Regard to Product Intervention

- EC

October 29, 2016

Type of Information: Regulation

Regulatory Status: Final Rule

The EC published, in the *Official Journal of the European Union,* the Commission Delegated Regulation (CDR) 2016/1904, which supplements the regulation on key information documents for PRIIPs, (EU Regulation 1286/2014) with regard to product intervention. The regulation specifies certain aspects of the temporary product intervention powers granted to the competent authorities and EIOPA (under exceptional circumstances).

The regulation also specifies the criteria and factors to be taken into account by competent authorities for the purpose of insurance-based investment product intervention powers. These aspects are specified with regard to the criteria and factors to be taken into account for determining the existence of a significant investor protection concern, or threat to the orderly functioning and integrity of financial markets, or to the stability of the whole or part of the financial system of at least one member state or respectively of the Union. A list of criteria and factors to be taken into account by competent authorities and EIOPA, when determining a concern or threat, should be established to ensure a consistent approach while permitting appropriate action to be taken where unforeseen adverse events occur.

The existence of a threat is one of the prerequisites of the intervention in the perspective of the orderly functioning and integrity of financial or commodity markets or stability of the financial system; it requires a higher threshold than the existence of a significant concern, which is the prerequisite of the intervention for investor protection. The need to assess all criteria and factors that could be present in a specific situation should not prevent the temporary intervention power from being used by competent authorities and EIOPA, where only one of the factors or criteria leads to such a concern or threat.

Comments Due Date: N/A
Effective Date: December 31, 2016
First Reporting Date: N/A

Link: Final Rule
Keywords: CDR 2016/1904, PRIIPs Regulation, Product Intervention

Germany

Key Developments

Requirements for Capital Market Models for Valuation of Technical Provisions Under Solvency II *- BaFin* *November 10, 2016* *Type of Information: Guideline*	The Federal Financial Supervisory Authority of Germany (BaFin) published the requirements for capital market models for valuation of the technical provisions under Solvency II. The present interpretation decision reflects requirements that are associated with the use of capital market models as part of the valuation of technical provisions. In particular, requirements concerning the interest rate models used as well as general requirements for the adequacy of the capital market models, along with the scenarios generated, are taken into account. The projections in the capital market models are based on a Monte Carlo simulation of capital market scenarios. For this purpose, the Economic Scenario Generators (ESG) are used. With the help of random number generators, these develop the necessary capital market scenarios based on mathematical modeling and calibration. *Link (to original language material): Requirements for Capital Market Models* *Keywords: Capital Markets Models, ESG, Solvency II*

United Kingdom

Key Developments

Policy and Supervisory Statements Following Solvency II Consultation: Consolidation of Directors' Letters

- PRA

November 25, 2016

Type of Information: Statement

The Prudential Regulation Authority (PRA) published several final policy and supervisory statements, following CP20/16 "Solvency II: consolidation of Directors' letters," which was published in May 2016. These policy and supervisory statements are as follows:

- ***PS33/16: Solvency II: consolidation of Directors' letters***. This policy statement provides feedback on the responses and final supervisory statements for the consultation paper (CP20/16) "Solvency II: consolidation of Directors' letters."
- ***SS17/16: Solvency II: Internal models – assessment, model change and the role of non-executive directors***. This supervisory statement contains the PRA's expectations of firms regarding internal models. This statement should be read in conjunction with the PRA's rules in the Solvency II Sector of the PRA Rulebook, the Solvency II Regulations 2015 (2015/575), and the PRA's approach to insurance supervision document.
- ***SS18/16: Solvency II: longevity risk transfers***. This supervisory statement sets out the PRA's views on the general issues arising from longevity risk transfers and clarifies the PRA's expectations on UK insurers and reinsurers conducting these transactions as either the buyer or the seller of longevity protection. This statement should be read in conjunction with the PRA's Solvency II rules in the PRA Rulebook and the PRA's approach to insurance supervision document.
- ***SS19/16: Solvency II: ORSA***. This supervisory statement contains PRA expectations of firms regarding their Own Risk and Solvency Assessment (ORSA), including the ORSA report, the firm's policy regarding its ORSA and the associated processes. It should be read together with SS41/15, "Solvency II: applying EIOPA Set 2, System of Governance, and ORSA Guidelines", the PRA's rules in the Solvency II Sector of the PRA Rulebook, and the PRA's approach to insurance supervision document. For non-life firms, this supervisory statement should be read together with the SS26/15, "ORSA and the ultimate time horizon – non-life firms".
- S***S20/16: Solvency II: reinsurance – counterparty credit risk***. It sets out the PRA's expectations of firms on general issues regarding reinsurance and the management of reinsurance counterparty credit risk. This statement should be read in conjunction with the PRA's Solvency II rules in the PRA Rulebook and the PRA's approach to insurance supervision document.
- ***Updated SS2/14: Solvency II: recognition of deferred tax***. This updated supervisory statement highlights focus areas (in respect of both balance sheet recognition and the solvency capital requirement calculation) relevant to the recognition of deferred tax assets and the effects of a 1-in-200 shock on tax balances. It also explains what the PRA expects in relation to the credibility of profit projections. The updates reflect changes consulted for in CP20/16 "Solvency II: consolidation of Directors' letters."
- ***Updated SS17/15: Solvency II: transitional measures on risk-free interest rates and technical provisions***. This supervisory statement specifies the calculation and application process to be used for the transitional measures, as specified in chapters 10 and 11 of the "Solvency II Firms: Transitional Measures Part of the Prudential Regulation Authority Rulebook." The updates reflect changes that were consulted in CP20/16 "Solvency II: consolidation of Directors' letters."
- ***Updated SS5/15: Solvency II: the treatment of pension scheme risk***. This supervisory statement sets out the PRA's expectations of firms in relation to defined benefit pension schemes; it provides further clarity to firms that sponsor a defined benefit pension scheme or part of a group that contains a company sponsoring a defined benefit pension scheme. The updates reflect changes consulted in CP20/16 "Solvency II: Consolidation of Directors' Letters."

Links: Press Release, PS33/16, SS17/16, SS18/16, SS19/16, SS20/16, Updated SS2/14, Updated SS17/15, Updated SS5/15
Keywords: Directors' Letters, Solvency II

Consultation on Authorization and Supervision of Insurance Special Purpose Vehicles

- PRA

November 23, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The PRA and the Financial Conduct Authority (FCA) jointly launched a consultation (CP42/16) setting out the regulators' approach and expectations in relation to the authorization and supervision of Insurance Special Purpose Vehicles (ISPVs). The appendices of this paper contain the following:

- Draft PRA supervisory statement (Appendix 1)
- Draft FCA statement (Appendix 2)
- Proposed amendments to the PRA Rulebook (Appendix 3)
- Draft application form in relation to the authorization and supervision of ISPVs (Appendix 4)
- Draft notification form for firms to use when they propose to add new cells to a multi-arrangement ISPV (Appendix 5)

Her Majesty's (HM) Treasury had intended to design a new framework to attract insurance-linked securities business to the UK, as part of the March 2015 budget. The regulators also committed to work with HM Treasury to examine the steps that might be taken, within the constraints of the Solvency II regime, to address any obstacles in the regulatory framework for insurance-linked securities business. Subsequently, in March 2016, HM Treasury released a consultation document seeking views on the regulatory, tax, and corporate structure framework for the insurance-linked securities business in the UK. As part of that consultation, comments were also invited on the authorization and supervision of ISPVs. HM Treasury also (November 23, 2016) released its second consultation document setting out further details of its proposed approach. HM Treasury's second consultation should be read along with this joint consultation by the PRA and the FCA (CP42/16), as the joint consultation sets out more detail on the regulators' proposed authorization and supervision regime for ISPVs in the UK.

CP42/16 is relevant to all parties who wish to apply to the PRA for, or have obtained authorization as, an ISPV. It is also relevant to the parties who wish to apply to the FCA for registration of a Protected Cell Company and to insurers seeking to use UK ISPVs as risk mitigation in accordance with Solvency II.

Comments Due Date: February 23, 2017
Effective Date: N/A
First Reporting Date: N/A

Links: Notification, CP42/16, HM Treasury's Second Consultation
Keywords: ISPV, Solvency II

Consultation on Solvency II: Reporting Format of National Specific Templates and Reporting Clarifications

- PRA

November 17, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The PRA proposed (CP40/16) changes to the National Specific Templates (NSTs) in respect of the file type and reporting format for the 2016 financial year-end and future financial year-ends. The PRA proposes the following:

- Reporting for financial year-end 2016 and future financial year-ends whereby firms submit NSTs in Excel templates, which have been designed using the eXtensible Business Reporting Language (XBRL) principles (Appendix 3 of CP40/16)
- Information requirements for NSTs to be brought into the Reporting part of the PRA Rulebook
- Updates to the NST LOG files to reflect changes in cell references, reporting clarifications, and technical corrections

The NSTs contain information that is considered to be specific to the UK market and supervisory approach and are in addition to the Solvency II annual and quarterly reporting. The NSTs and the accompanying LOG files have been published on the Regulatory Reporting for Solvency II Firms page of the Bank of England website. The PRA plans to later consult on the new proposals moving toward the XBRL reporting of NSTs.

In policy statement (PS2/15), the PRA had published NSTs and the accompanying log files in March 2015 as part of the policy statement PS2/15 titled "Solvency II: a new regime for insurers." The templates had originally been published in the Excel format. However, in paragraph 12.13, the PRA had mentioned that it expected to move to XBRL reporting and would consult on any change in the reporting format.

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

Links: CP40/16, Appendices 2 and 3, PS2/15
Keywords: NST, Reporting, Solvency II

Prudent Management of Cyber Insurance Underwriting Risk

- PRA

November 14, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

As part of the consultation paper CP39/16, the PRA proposed a supervisory statement setting out its expectations for the prudent management of cyber underwriting risk. Here, cyber underwriting risk is defined as the set of prudential risks emanating from underwriting insurance contracts that are exposed to losses resulting from a cyber-attack.

The proposals in this consultation paper are based on thematic work conducted by the PRA between October 2015 and June 2016 involving a range of stakeholders, including insurance and reinsurance firms, reinsurance intermediaries, consultancies, catastrophe modelling vendors, cyber security and technology firms, and regulators. The proposals in the consultation paper have been grouped based on the PRA's thematic findings in silent cyber risk; cyber risk strategy and risk appetite; and cyber expertise. This paper is relevant to all UK non-life insurance and reinsurance firms and groups within the scope of Solvency II, including the Society of Lloyd's and managing agents (Solvency II firms).

Comments Due Date: February 14, 2017
Effective Date: N/A
First Reporting Date: N/A

Links: Notification, CP39/16
Keywords: Cyber Risk, Underwriting Risk

Consultation on Updates to Solvency II: Group Supervision

- PRA

November 07, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The PRA published proposal (CP38/16) to update the Supervisory Statement (SS9/15) "Solvency II: group supervision." The proposals in this consultation paper follow on from CP20/16 "Solvency II: consolidation of Directors' letters," which was published in May 2016.

The proposals in this consultation are intended to clarify for firms which aspects of the PRA's letter—titled "Solvency II: An update on implementation" and published on July 25, 2014—on group supervision are now intended to be effective as ongoing supervisory expectations. The consultation paper also includes proposals to address elements of the Solvency II legislation introduced after the publication of the relevant letters—including the Solvency II regulations 2015—and to update it with references to the PRA Rulebook. These proposals will result in the consolidation of PRA expectations in respect of Solvency II group supervision, as they are intended to be implemented in the form of an update to the current SS9/15.

Comments Due Date: February 07, 2017
Effective Date: N/A
First Reporting Date: N/A

Links: Overview of CP38/16, CP38/16, SS9/15, CP20/16, PRA Letter of July 2014
Keywords: CP38/16, Group Supervision, Solvency II

Americas

United States of America

Key Developments

First Annual Consumer Report on the Consumer Protection and Access to Insurance

- FIO

November 21, 2016

Type of Information: Report

The Federal Insurance Office (FIO) of the U.S. Department of Treasury released its first annual report on the protection of consumers and access to insurance.

The annual consumer report addresses a range of consumer protection issues that are critical to the functioning of a stable and fair insurance marketplace. The report contains five broad themes that commonly recur in discussions of insurance and consumer protection: insurance and technology; environmental hazards and insurance; fairness in insurance practices; fairness in state insurance standards; and retirement and related issues. The report highlights gaps and inconsistencies in state insurance consumer protections and recommends a path forward in each instance. The report also emphasizes significant issues for consumer attention and is a resource for further exploring certain related topics. The report does not address every significant consumer-related insurance issue, owing to the breadth of insurance products, benefits, laws, regulations, and the range of variance among the U.S. states.

Additionally, on September 30, 2016, FIO had released its fourth annual report on the insurance industry. With regard to the domestic insurance industry, the report examined the financial performance and condition of the key U.S. insurance industry sectors, also providing an outlook on the industry financial performance and trends for 2016, based on interim results reported through June 30, 2016. It also addressed a range of domestic developments at the state, federal, and international levels, over the past year, that may have implications for the U.S. insurance sector. With regard to the international developments, the report summarized the progress of Treasury and the Office of the U.S Trade Representative regarding a potential covered agreement with the EU; it also addresses FIO's engagement with international standard-setting organizations and with stakeholders concerning international matters.

The FIO, which was established within Treasury as part of the Dodd-Frank Act, is authorized to monitor all aspects of the insurance sector, including identifying issues that could contribute to systemic risk in the insurance industry or the U.S. financial system. It also assesses the availability and affordability of insurance to traditionally underserved populations, advises the Secretary of the Treasury on major domestic insurance policy issues, and represents the United States on prudential aspects of international insurance matters.

Links: Press Release: First Annual Consumer Report, Annual Consumer Report, Press Release: Annual Report on Insurance Industry, Annual Report on Insurance Industry
Keywords: Annual Report, Consumer Protection, Dodd-Frank Act

Chile

Key Developments

Concluding Statement of the 2016 Article IV Consultation

- IMF

November 02, 2016

Type of Information: Report

The International Monetary Fund (IMF) published the concluding statement of the 2016 Article IV consultation with Chile. A concluding statement describes the preliminary findings of IMF staff at the end of an official staff visit, in most cases to a member country.

The concluding statement highlights that the financial sector balance sheets of Chile are healthy, but risks to financial stability bear close monitoring. Banks' earnings slowed in 2016 as a result of low economic activity. Non-Performing Loans (NPLs) remain low while capital buffers are well above the current legal requirements. Life insurance companies and pension funds continue to be pressured by the low-yield environment and have kept on shifting their portfolios toward higher-yield but potentially riskier or less liquid assets. Weaker than expected growth could strain the solvency of highly leveraged firms and less-resilient Small and Medium Enterprises (SMEs), with potential for amplification via strong inter-sectoral balance sheet linkages. This risk calls for continued strengthening of the financial sector regulation and supervision.

Another risk is that of the regulatory framework falling further behind the international standards. Thus, the adoption of key regulations on bank solvency and insurance supervision should not be further delayed. The revision of the General Banking Law, which would implement Basel III capital requirements for Chilean banks, during the term of the current administration is at risk. In addition, the law that would implement risk-based supervision for Chile's insurance sector has been with Congress since 2011. The adoption of both reforms are expected to contribute significantly to more efficient supervision, to enhance the credibility of Chile's financial sector, and to strengthen its resilience against domestic or external shocks. A Financial Stability Institute (FSI) survey, which was published in July 2015, highlights the implementation status of various elements of the Basel framework.

Furthermore, the proposed creation of the Financial Markets Commission is an important step, as it may allow a more effective oversight of financial conglomerates. However, its implementation should not delay the adoption of other important reforms (that is, Basel III and risk-based supervision of insurers) and should be used as an opportunity to broaden the scope of supervision to shadow banking activities.

Another important area highlighted in this statement is the lack of scope to improve corporate governance and investor protection. Chilean companies are, on average, relatively opaque and levels of compliance with best practices in corporate governance are low. Given their important role in Chile's financial system, institutional investors, such as pension fund administrators, can encourage Chilean businesses to improve corporate governance. For instance, institutional investors could give preference to investments in companies with high governance standards and protection of minority shareholder interests. These standards could be enshrined in a new governance code (Stewardship Codes), which firms could subscribe to on a voluntary basis. Such codes have been successfully introduced in the UK and Japan. Enhanced governance practices could also be incentivized through a targeted new stock market index for companies with high governance standards—similar to a recently created sustainability index at the Chilean stock market.

Links: Concluding Statement, FSI Survey: Basel II, 2.5, and III Implementation
Keywords: Article IV Consultation, Basel III, RBC

Mexico

Key Developments

Release of Staff Report and Financial System Stability Assessment Report

- IMF

November 22, 2016

Type of Information: Report

The IMF published its staff report (CR16359) and Financial System Stability Assessment (FSSA) report (CR16361) in the context of the 2016 Article IV consultation with Mexico.

The staff report reveals that Mexico continues to grow at a moderate pace, despite a challenging external environment. However, the country remains exposed to external shocks, including risks of growing protectionism, given its strong financial and trade linkages with the rest of the world. Directors expressed confidence that Mexico's strong fundamentals and policy frameworks will continue to underpin the economy's resilience, but urged vigilance to potential shocks. They noted that the Flexible Credit Line arrangement with the IMF provides additional insurance against tail risks. Continued implementation of the structural reform agenda and further progress in improving security and the rule of law should help lift potential growth in the medium term. The 2016 Financial Sector Assessment Program (FSAP) concluded that the balance sheets of financial and non-financial corporations are resilient to adverse shocks. In particular, the insurance sector could endure a combination of interest rate, exchange rate and equities market shocks. Enhancing some elements of the crisis-preparedness and deposit insurance frameworks are expected to ensure an agile and well-coordinated response in times of stress. Strengthening the independence of the supervisory agencies would also be important. It is also clarified that decisions of the Financial Stability Council have not been hampered by political considerations and the authorities are encouraged to maintain their efforts in this area.

The financial system stability assessment report highlights that the country's economic fundamentals are strong. The medium-term outlook foresees steady growth underpinned by strong macroeconomic policies, broad reform initiatives, and relatively strong balance sheets. Key risks are external and include a slowdown of growth in the U.S., lower oil prices, and volatility in global financial markets. Related shocks could adversely impact the financial system through the deterioration of corporate and public balance sheets and reversal of capital flows leading to tightening financial conditions. The report's key recommendations are in the areas of institutional arrangements and governance; financial stability policy framework; small and medium-size enterprise finance; and crisis management and resolution, among others.

Links: Staff Report, Financial System Stability Assessment Report
Keywords: Article IV Consultation, FSAP, FSSA, Stress Testing

Asia Pacific

Australia

Key Developments

Submission on Corporations and Financial Services Inquiry into Life Insurance Industry

- APRA

November 30, 2016

Type of Information: Statement

The Australian Prudential Regulation Authority (APRA) released its submission to the Parliamentary Joint Committee (PJC) on Corporations and Financial Services Inquiry into the life insurance industry. The submission provides an overview of the life insurance industry and of APRA's activities in the sector. The submission also outlines opportunities for industry initiatives and regulatory reform to address the challenges of legacy products.

The submission highlights sustainability as a key theme underpinning APRA's recent activity in the industry. A sustainable life insurance industry, with insurers that are financially and operationally sound into the future, serves the interests of consumers. To this end, APRA has strengthened the life insurance prudential framework and heightened its supervisory intensity of life insurers.

The Financial System Inquiry recommended the introduction of a mechanism to facilitate the rationalization of legacy products in the life insurance industry while recognizing that legacy products become more complex and expensive to administer over time. This can result in increased operational risk to insurers and poor consumer outcomes. APRA will continue to support the Financial System Inquiry recommendation, which will require legislative change to implement.

Links: Press Release, APRA Submission, Letter: APRA Submission
Keywords: PJC Inquiry

Glossary

APRA	Australian Prudential Regulation Authority
BaFin	Federal Financial Supervisory Authority, Germany
BRRD	Bank Recovery and Resolution Directive
CCP	Central Counterparty
CDR	Commission Delegated Regulation
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
EU	European Union
EC	European Commission
ECON	Economic and Monetary Affairs
EIOPA	European Insurance and Occupational Pensions Authority
EMIR	European Market Infrastructure Regulation
ESAs	European Supervisory Agencies
ESG	Economic Scenario Generators
FCA	Financial Conduct Authority
FIO	Federal Insurance Office
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSI	Financial Stability Institute
FSSA	Financial System Stability Assessment
G-SIB	Global Systemically Important Bank
G-SII	Global Systemically Important Insurer
HLA	Higher Loss Absorbency
IAIG	Internationally Active Insurance Group
IAIS	International Association of Insurance Supervisors
ICPs	Insurance Core Principles
IMF	International Monetary Fund
ISPV	Insurance Special Purpose Vehicle
KID	Key Information Document
MMF	Money Market Fund
NPL	Non-Performing Loan
NST	National Specific Template
ORSA	Own Risk and Solvency Assessment
PJC	Parliamentary Joint Committee
PRA	Prudential Regulation Authority
PRIIPs	Packaged Retail And Insurance-Based Investment Products
RBC	Risk Based Capital
RTS	Regulatory Technical Standards
SCR	Solvency Capital Requirement
SME	Small and Medium Enterprise
TLAC	Total Loss-Absorbing Capacity
XBRL	eXtensible Business Reporting Language