MOODY'S ANALYTICS

INSURANCE NEWSLETTER

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Regulatory Insight

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 Newsletter from the International Association of Insurance Supervisors (IAIS) opens with an interesting feature article from the Secretary General. In the article he directly addresses the suggestion that a global unified risk-based insurance capital standard is not a realistic goal given the existing divergent approaches. The experience that the EU had in agreeing Solvency II (which, of course, is much broader than just a capital standard) is illustrative of the difficulties in preparing a common standard for multiple countries. However, the IAIS's Secretary General expresses confidence in the ability of the IAIS to deliver an initial standard in 2017 and a revised standard in 2019.

This month's collection of Insurance Insight items contains an unusually large number of speeches. Particularly noteworthy is the speech by Verena Ross of the European Securities and Monetary Authority (ESMA). One of the themes of her speech is the regulators' need for high quality data. Of course, in Europe, the European Insurance and Occupational Pensions Authority (EIOPA) already collects a great deal of data on the insurers regulated by EIOPA's members. This data includes asset by asset details on investment holdings (including on a "look-through" basis for externally managed investment funds), and granular liability cash flow data from regulatory returns and stress testing exercises. One wonders how long it will be before all national regulators are collecting as much data as EIOPA's members.

Finally, an insight into the Prudential Regulation Authority's (PRA) thinking about insurers using an internal model to calculate their required capital. The PRA is concerned that the output of an insurer's internal model may drift, or evolve over time to become a weaker capital measure. The PRA intends to monitor the relationship between the capital required on a standard formula and the capital required using the internal model. An equivalent process could be implemented by any insurer developing an internal model to provide an objective measure of model drift.

Table of Contents

International

Key Developments

Methodology for Assessing the Implementation of Key Attributes of Effective Resolution Regimes in the Banking Sector

- FSB

October 19, 2016

Type of Information: Guideline

The Financial Stability Board (FSB) published its methodology for assessing the implementation of its Key Attributes of Effective Resolution Regimes for Financial Institutions (also known as the Key Attributes) in the banking sector.

The methodology provides essential criteria for guiding the assessment of compliance of a jurisdiction's bank resolution frameworks with the Key Attributes. It is designed to promote consistent assessments across jurisdictions and provide guidance to jurisdictions when adopting or reforming bank resolution regimes to implement the Key Attributes. The FSB will continue to monitor implementation of the Key Attributes. FSB jurisdictions have agreed to undergo an assessment of their bank resolution regimes on the basis of this assessment methodology.

This methodology is the first step in implementing a modular approach that is tailored to the specific features of a sector and facilitates the assessment of resolution regimes for banks, insurers, and financial markets infrastructures (FMIs). The methodology was developed in collaboration with experts from FSB jurisdictions, relevant standard-setting bodies, the International Monetary Fund (IMF), and the World Bank. It addresses comments from the August 2013 consultation on the assessment methodology. It also incorporates the experience of the field tests and the peer review based on the *Second Thematic Review on Resolution Regimes*, which was published in March 2016.

Elke König, who is Chair of the FSB Resolution Steering Group and the European Single Resolution Board, highlighted that the FSB's August 2016 resolution progress report shows uneven progress in implementation. Substantial work remains to be done for implementing effective resolution regimes and operationalizing resolution plans for cross-border firms. Thus, this methodology will be useful for facilitating an informed and consistent analysis of compliance with the *Key Attributes*.

Links: Press Release, Assessment Methodology, Key Attributes, August 2013: Consultation, Responses to August 2013 Consultation, Second Thematic Review, Resolution Progress Report

Keywords: Key Attributes, Resolution

Monthly Newsletter

- IAIS

October 18, 2016

Type of Information: Newsletter

This month's International Association of Insurance Supervisors (IAIS) newsletter discusses the development of a single set of Insurance Capital Standards (ICS). It also talks about the qualitative field testing (QFT) in the context of ComFrame Module 2 and the scheduling of public consultations on Insurance Core Principles (ICPs) and ComFrame supervisory material. ComFrame Module 2 concerns Governance and Enterprise Risk Management.

This month's newsletter discusses the ongoing challenges in the implementation of ICS. The IAIS Executive Committee states that the ultimate goal is a single ICS that includes a common methodology for achieving comparable outcomes across jurisdictions. However, many people believe that insurance supervisors still have significantly divergent views on global capital standards and are not ready to change their own capital requirements to accommodate a global, risk-based ICS. Therefore, they argue that achieving a meaningful ICS in the near future is not feasible. While challenges persist in reaching a consensus on some ICS issues or any concrete standards or policies, the IAIS has faced similar challenges in the course of developing the global systemically important insurer (G-SII) policy measures, Basic Capital Requirement (BCR), and higher loss absorbency (HLA). The IAIS agreed to a capital standards mandate in 2013, developed the BCR in 2014, and adopted the higher loss absorbency in 2015. Thus, despite difficulties, the IAIS has come a long way in a short time. The IAIS expects to deliver converged capital standards in the near future—Version 1.0 in 2017 and Version 2.0 in 2019.

The October issue also discusses the ComFrame QFT, which is intended to test the draft work done on ComFrame Module 2. The newsletter touches on the key findings of both phases of the QFT exercise. Phase 1 addressed ComFrame requirements pertaining to Internationally Active Insurance Groups (IAIGs) with respect to legal and management structures and governance. Phase I findings, published in September 2015, showed that there is a need for enhanced clarity in parts of the ComFrame text and indicated a need to confirm the intent of ComFrame with respect to group-level functions. There may also be a need to confirm and clarify which legal or supervisory instruments or practices would confirm compliance with ComFrame. Phase 2, published in February 2016, addressed the enterprise risk management aspects of ComFrame. The IAIS found that Phase 2 results were conceptually consistent with certain findings previously reported on Phase 1 QFT. Phase 2 identified the need to clarify and amend requirements (if needed) to better distinguish between risks that can be evaluated quantitatively, and those that can only be evaluated or assessed more qualitatively. Phase 2 followed the same process as Phase 1, except that the data was submitted by April 30, 2015.

Post this, the IAIS Executive Committee, during its meeting on October 05, 2016, scheduled public consultations on ICPs and ComFrame supervisory material for March 2017. This will provide the necessary time to review and respond to the robust volume of stakeholder comments received during the pre-consultation, ensure consistency in resolution through well-coordinated feedback loops, effect a seamless integration of ComFrame material into the ICPs structure, and facilitate stakeholder feedback across multiple thematic areas. The consultations had previously been scheduled for November 2016.

Keywords: ComFrame, ICS

Europe

European Union

Key Developments

Report on Financial Structures in the Euro Area Financial Sector

- ECB

October 27, 2016

Type of Information: Report

The European Central Bank (ECB) published a report reviewing the key structural features and developments in the euro area financial sector. The report complements the biannual ECB Financial Stability Review, which focuses on cyclical factors.

The report covers the banking sector (monetary financial institutions or MFIs), insurance corporations and pension funds (ICPFs), and other financial intermediaries (OFIs). OFIs are a part of the wider financial sector, often referred to as the shadow banking sector. In this report, the non-bank financial sector includes non-money market investment funds, money market funds, and financial vehicle corporations (FVCs).

The report contains four chapters, followed by an Annex. First, the report describes the evolution of the overall structure and composition of the financial sector, discusses the role of the financial sector in financing non-financial corporations, and analyzes interconnectedness across different parts of the financial sector to assess possible structural risks to financial stability. It then presents structural developments in the euro area banking sector, providing a wide set of structural information from both a cross-sectional (across banking types, business models) and a time perspective. This is followed by a discussion on structural developments in euro area insurance corporations and pension funds, using publicly available data from the balance sheets of ICPFs and data from the European Insurance and Occupational Pensions Authority (EIOPA). The fourth chapter reviews the structural features of the euro area non-bank financial sector (OFIs), including all other financial intermediaries except ICPFs.

The report uses several publicly available data sources. It uses the ECB-complied annual aggregate banking sector statistics, with input from national authorities. Individual bank-level data are derived from banks' published accounts or information from market data providers. Data on the insurance and pension fund sectors are available from the ECB statistics on balance sheets of ICPFs and from the EIOPA. For the remaining non-bank financial sector, data was used from a number of ECB statistical sources, including from the euro area accounts, the FVCs asset and liabilities statistics, the MFI balance sheet items statistics, and the balance sheet statistics of the investment funds.

Links: Report, Financial Stability Review
Keywords: Financial Structures, MFI, OFI

Response to the European Commission's Consultation on Review of the European Union Macro-Prudential Policy Framework

- ESRB

October 24, 2016

Type of Information: Statement

The European Systemic Risk Board (ESRB) published its response to the European Commission's (EC) consultation on the review of the European Union (EU) macro-prudential policy framework. The EC consultation was launched on August 01, 2016. Through this response, the ESRB's General Board intends to outline its priorities. This response discusses key issues related to governance and, macro-prudential tools for banking, along with the need to broaden the macro-prudential toolkit beyond banking.

The response states that the General Board believes in ESRB remaining closely linked with the ECB/European System of Central Banks or ESCB (including the *de jure* chairmanship of the ESRB held by the ECB's President). The General Board should continue to have a broad composition, in line with the ESRB's function, to act as a forum for cooperation among institutions that contribute to preserving financial stability across the EU. The General Board also believes that the ESRB should continue to play a central role in the

- Dialog among macro-prudential authorities
- Assessment of the macro-prudential measures, including the assessment of cross-border and cross-sector spillover effects

The response notes that several micro-prudential instruments applicable to banks are also usable as macro-prudential tools, and vice versa. A technical annex to this document discusses the experiences of ESRB members and possible approaches to providing a clarification of objectives and procedures. This response statement emphasized that the reciprocation of national exposure-based measures should become the rule (with exceptions in justified cases). Also, while recognizing that macro-prudential instruments outside banking already exist for selective purposes, there is a general need to establish a comprehensive macro-prudential toolkit beyond banking. In particular, instruments such as margin and haircut requirements for derivatives and securities financing transactions (SFTs), along with the liquidity and leverage requirements for investment funds, should be further investigated; where appropriate, the regulatory framework could also be expanded. Moreover, the design of recovery and resolution regimes for central counterparties (CCPs) and insurance corporations should have a macro-prudential profile.

Some proposals outlined in the ESRB's response may require international coordination. This is particularly true in the case of macro-prudential tools to be applied to financial markets and market infrastructure, due to the global nature of the relevant markets. The input set out in this response does not discuss these international aspects. The EC consultation also covers possible changes to powers and duties of macro-prudential authorities and the ECB, within the Single Supervisory Mechanism (SSM). These issues have not been discussed in this response, as the input set out here is meant to focus on ESRB priorities.

Links: ESRB Response, Consultation Document
Keywords: CRR, CRD IV, Macro-Prudential Policy

Speech of ESMA's Verena Ross on Regulatory and Supervisory Developments and Challenges

- ESMA

October 21, 2016

Type of Information: Speech

Verena Ross, the Executive Director of the European Securities and Monetary Authority (ESMA), spoke at the Finanstilsynet 30th Anniversary International Conference. She focused on ESMA's recent work on Markets in Financial Instruments Directive II (MiFID II), Capital Markets Union (CMU), Packaged Retail and Insurance-Based Investment Products (PRIIPs), and investor protection. The role of disclosures and data quality, along with the importance of supervisory convergence were the key issues in focus.

Issues on disclosures for PRIIPs

Ms. Ross highlighted that PRIIPs is likely to be one of the most important and visible projects ESMA has been working on. For this project, ESMA is working in close co-operation with European Banking Authority (EBA) and European Insurance and Occupational Pensions Authority or EIOPA (and all national competent authorities). As part of this project, retail investors will see a Key Investor Information Document (KIID) bringing together the key information about potential investments.

Ms. Ross pointed out that some market participants are not convinced by ESMA's suggested way forward; this might be due to concerns about implementation of the Insurance Mediation Directive. Given the timing of the PRIIPs work, there was a clear need for alignment with MiFID II, but there was also a need to look at the Undertakings for Collective Investment in Transferable Securities Key Information Document (KID) in this context. The European Parliament's Economic and Monetary Affairs (ECON) Committee expressed concerns, which the Parliament followed when deciding to reject the regulatory technical standards (RTS) prepared by the European Supervisory Authorities (ESAs) and to ask for a delay of the implementation deadline. EC must now find a common way forward together with the European Parliament and Council and ESMA will assist the institutions wherever possible. She stressed on "the need for clarity both for investors and market participants on what the world will look like" on January 01, 2017, when the regulation comes into effect.

Need for high-quality data

Ms. Ross highlighted that ESMA has taken first steps to improve the EU-wide data and risk analysis on the securities markets as part of its trends, risks, and vulnerabilities reports. Data are important to assess risks and allow the focus of ESMA's limited regulatory and supervisory resources, at both the national and the European level. In some areas, national authorities already have relevant data, which ESMA can aggregate and benefit from, at the EU level, in a way that does not create additional burden for market participants. In other areas, national-level data are either non-existent or impossible to aggregate. ESMA needs to collect some data, especially from entities such as trade repositories and credit rating agencies, which it supervises.

Ms. Ross revealed that ESMA is entering completely new ground to improve data quality in one area. In the context of the MiFID II implementation, national competent authorities (including the Norwegian Financial Services Authority) have delegated to ESMA, for the first time, two major data-related IT projects. ESMA will provide a central facility in relation to reference and trading data and the calculation of the comprehensive Markets in Financial Instruments Regulation transparency parameters. This project will allow ESMA to collect data in a more efficient and harmonized manner across Europe and to publish all transparency parameters and reference data on financial instruments in one go. Furthermore, the project requiring ESMA to connect to hundreds of trading venues across the EU is on track and is planned to go live in January 2018, coinciding with the application of MiFID II. This will make ESMA a key part of European market infrastructure, as firms will need to consult ESMA's website regularly for data and information for the entire EU.

Link: Speech
Keywords: KIID, PRIIP, Reference Data

Amendment of Templates for Reporting According to Solvency II

- EC

October 21, 2016

Type of Information: Regulation

Regulatory Status: Final Rule

The Commission Implementing Regulation (CIR) 2016/1868 to amend and correct CIR 2015/2450 was published in the *Official Journal of the European Union*. CIR 2015/2450 sets out implementing technical standards (ITS), on the templates for submission of information to the supervisory authorities according to Solvency II.

The regulation amends several minor drafting errors in Annex V of the CIR 2015/2450, along with Annexes I, II, III. Furthermore, Annex VI of CIR 2015/2450 was amended in accordance with Annex IV to CIR 2016/1868. These amendments were made to ensure that supervisory authorities receive appropriate information:

- For the supervisory review process
- On qualifying infrastructure investments made by insurance and reinsurance undertakings
- On investments in European long-term investment funds and equities traded on a multilateral trading facility

Comments Due Date: N/A
Effective Date: November 10, 2016
First Reporting Date: N/A

Link: Final Rule
Keywords: CIR 2016/1868, Reporting, Solvency II

Vice President of European Commission on Challenges and Opportunities in the European Insurance Sector

- EC

October 14, 2016

Type of Information: Speech

At the French Association of Insurers in Paris, the EC Vice President Valdis Dombrovskis spoke about the challenges and opportunities in the insurance sector in Europe.

Mr. Dombrovskis highlighted that the digital technology is changing every part of the insurance product cycle—from product distribution, to pricing and policyholder servicing, to reinsurance arrangements. It is not only opening up new opportunities for businesses, but is also a disruptive force that is raising consumer expectations for more personal and customized services. Thus, the EC has set up a FinTech Task Force in response to the new technologies and business models being created. He highlighted that EC is trying to better understand the implications of new technologies on its rules and supervision; get a more detailed grasp of how big data is being used; and assess cyber and operational risks.

Speaking about the Capital Markets Union (CMU), the EC Vice President highlighted that the first measure to take effect was an amendment to Solvency II to reduce capital requirements for investments in infrastructure projects and in European long-term investment funds by nearly 30%. He added that the EC has implemented temporary measures to ease the burden on capital requirements for insurers' investments in unlisted equity. Now, EC is working to see whether it can extend lower capital requirements for investments in infrastructure corporates.

He also stated that the EC wants insurers to be part of its plans to restart securitization markets in Europe by defining simple, transparent, and standardized securitization. The proposal has been agreed upon by the member states. Now, the European Parliament needs to take this proposal forward urgently. As soon as EC gets closer to a political agreement, it will propose an amendment to Solvency II implementing rules so that lower capital charges for simple, transparent, and standardized securities can also apply to insurers. The EC is also working toward providing more options for people who want to save for their retirement and launched a public consultation to determine how to create a competitive and simple personal pension product. Additionally, as part of the CMU project, the EC is checking whether the rules created during the crisis are working as intended. Hence, the EC had launched its Call for Evidence on the EU regulatory framework for financial services in September 30, 2015. Mr. Dombrovskis revealed that EC will publish its analysis based on the responses received and the follow-up actions before the end of the year.

In 2018, the EC will review Solvency II implementing measures and has already requested technical advice from EIOPA in July this year. The EC had asked EIOPA to work on simplified calculation methods for insurers, which should help simplify reporting requirements. Additionally, it also wants to use the review to identify other asset classes for which capital requirements could be reduced. The review of the Solvency II Directive is planned for 2020, which will focus on long-term guarantee measures and assess whether these are effective in supporting long-term insurance products such as life insurance.

Mr. Dombrovskis revealed that EC has revised the Insurance Distribution Directive to improve the way insurance products are sold. Its goal is to make insurance distributors clearer about the cost of their products and about the commission they get for selling one product versus another. Additionally, to increase transparency and give consumers the information and certainty that they need to invest, the EC has put forward the legislation on PRIIPs. Its goal is to enable investors to compare products more easily through Key Information Documents (KIDs) and would introduce common standards for presenting information for a wide range of investment products. Additionally, the EC has carefully assessed the European Parliament's dissatisfaction with the delegated regulation containing PRIIPS RTS. The EC is working with the European Supervisory Authorities (ESAs) to address these concerns and ensure that the RTS can be re-proposed before the end of the year.

Links: Speech, Consultation on Personal Pension Framework, Call for Evidence on Regulatory Framework, Technical Advice Request, PRIIPs Resolution
Keywords: Single Market, Solvency II

Speech of EIOPA Chairman on the Capital Markets Union and the Future of European Pensions

- EIOPA

October 06, 2016

Type of Information: Speech

The EIOPA Chairman Gabriel Bernardino spoke at the Better Finance International Conference in Brussels about EIOPA's action plan on the CMU and the future of European Pensions.

The Chairman highlighted that, in February 2016, EIOPA submitted its Technical Advice on the Pan European Personal Pension Products (PEPP) to the EC. PEPP is a safe, transparent, and cost-effective personal savings product, for which EIOPA has proposed a number of standardized and flexible features:

- Standardized information provision based on the proposals of the KID within the PRIIPs framework
- Standardized limited investment choices, with one core "default" investment option, where the investment strategy considers the link between accumulation and decumulation
- Regulated, flexible caps on costs and charges
- Flexible biometric and financial guarantees

Mr. Bernardino also added that PEPP should reflect the long-term nature of retirement savings. To allow this long-term investment horizon, PEPP should envisage minimum holding periods. Moreover, liquid investments should follow liquid liabilities and the PEPP could be the catalyst for the following:

- Efficiency gains through economies of scale and opportunities for risk diversification as well as for competition and innovation
- High levels of cross-border activities and reduced obstacles to further the single market
- Opportunities for higher replacement rates and for multi-pillar diversification

He emphasized that EIOPA's analysis concluded that a PEPP enacted through a second regime is a powerful tool to complement the much needed retirement savings in Europe to promote the CMU. He believes that the development of "product pilots" should be the next step and that pure individual Defined Contribution Schemes and pooling mechanisms should be explored. Although PEPP is a personal product, Mr. Bernardino believes that some of the learnings can benefit occupational pensions. Hence, the design of a simple and transparent second regime for Defined Contribution Occupational Pensions Schemes could be a further important step. "This framework should be capable to take full advantage of the potential of the EU internal markets, by providing a cross-border platform that would reduce costs, support long-term funding of the EU economy, and ultimately deliver better pension outcomes for the EU citizens." In conclusion, Mr. Bernardino asserted that the success of CMU lies in regaining confidence of the EU citizens in the financial markets. Therefore, supervisory convergence needs to be a high-level priority of the CMU.

Links: Speech, Technical Advice on PEPP
Keywords: KID, PRIIP, PEPP

Keynote Speech on Actions Toward Building a Single Capital Market in Europe by the EC Vice President

- EC

October 05, 2016

Type of Information: Speech

While addressing the Securities Industry and Financial Markets Association (SIFMA) in New York, EC Vice President Valdis Dombrovskis spoke about EC's activities on building a single capital market in Europe and on its approach to international rulemaking in the banking sector. Setting out the first set of actions EC proposed over the past year, he asserted that these should be agreed by the end of the year:

- To amend the prudential regime for insurers to make it cheaper for them to invest in infrastructure projects
- To make Europe's prospectus regime simpler, faster, and cheaper to make it easier for companies to tap public markets
- To restart securitization markets in Europe by defining simple, transparent, and standardized securitizations and by reducing associated capital requirements
- To strengthen Europe's venture capital markets and support socially minded investment

The EC Vice President highlighted that, in the coming months, EC is expected to revise the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD). The aim is "legislation that supports financial stability, but allows banks to lend and support investment in the wider economy." EC is focused on supporting investment and it wants to avoid changes that would lead to a significant increase in the overall capital requirements for the European banking sector. This position of EC has received a strong backing from all EU countries in July and is in line with the Basel Committee on Banking Supervision's aim to not significantly increase overall capital requirements. Internationally, Europe would like to see Basel measures that consider the individual banks' situations and maintain a risk-sensitive approach to setting capital requirements. Different banks have different business models that involve different levels of risk. This needs to continue to be recognized to preserve a diverse financial landscape.

Mr. Dombrovskis emphasized that the EC is committed to implementing the agreed international standards for global systemically important banks (G-SIBs). It will soon propose legislation to implement the total loss-absorbing capacity (TLAC) requirement, ensuring that this fits in with Europe's existing minimum requirement for own funds and eligible liabilities (MREL). He highlighted his hope that the ongoing TLAC implementation in the U.S. will keep in mind the situation of foreign banks operating in the U.S. He considers that this is important for maintaining a level playing field across both jurisdictions.

The EC Vice President concluded his speech by highlighting that Europe and the U.S. have a long-standing and strategic partnership. Although differences arise in their respective approaches to an issue, these differences are insignificant compared to the values and shared interests uniting both. Finally, he reiterated Europe's commitment to working with the U.S. to face the common challenges and help financial sectors remain competitive in the global economy.

Link: Speech
Keywords: International Rulemaking, Single Market

Strategic Direction for 2017–2019

- EIOPA

October 04, 2016

Type of Information: Report

EIOPA published its Single Programming Document (SPD) outlining the strategic direction of its activities over the next three years (2017–2019). It also outlines the tasks that EIOPA is mandated to perform in 2017, including deliverables and concrete business objectives. To develop itself as a credible supervisory authority in the European System of Financial Supervision, the three key strategic priorities of EIOPA are:

- Enhancing supervisory convergence
- Reinforcing preventive consumer protection
- Preserving financial stability

The SPD also provides details of EIOPA's revenues, expenditures, staffing, and organizational structure. This document has been developed in accordance with the new requirements of the EC, as part of the new Financial Regulation to enhance consistency and comparability across EU.

Links: News Release, EIOPA Work Program
Keywords: Strategic Plan, Work Program

Switzerland

Key Developments

Guidelines and Scenarios for the 2017 Swiss Solvency Test

- FINMA

October 31, 2016

Type of Information: Regulation

Regulatory Status: Final Rule

FINMA published guidelines and scenarios for the 2017 Swiss Solvency Test (SST). This guideline and scenarios are intended for insurance companies that are SST-liable in 2017.

The guidance refers to the supervisory regulation (AVO; SR 961.011) and the FINMA Circular 2008/44 "SST" or its successor. If the ongoing revision of the FINMA circular is material, then changes to this guidance will be published before December 31, 2016 on the FINMA website. The submission deadline for the SST is April 30, 2017.

Comments Due Date: N/A
Effective Date: January 01, 2017
First Reporting Date: N/A

Links (to original language material): Guidelines, Scenarios
Keywords: SST, Stress Testing

United Kingdom

Key Developments

Solvency II Updates

- PRA

October 25, 2016

Type of Information: Statement

The Prudential Regulation Authority (PRA) issued the following updates that are relevant to Solvency II insurers:

- Monitoring model drift and standard formula Solvency Capital Requirement (SCR) reporting for firms with an approved internal model (SS15/16): This supervisory statement sets out the PRA's expectations of firms with an approved internal model. It also provides further information on the PRA's approach to monitoring model drift and the reporting of standard formula SCR information.
- Reporting of National Specific Templates, or NSTs (CP37/16): In this consultation paper, the PRA proposes changes to the file type and reporting format of NSTs. The paper presents a number of reporting clarifications and technical corrections related to the accompanying NST LOG files. The consultation closes on December 06, 2016.
- Waivers by consent to firms: The PRA published the list of available waivers by consent to the firms. These include waivers by consent of SUP or Supervision, Non-Solvency II Firms (Senior Insurance Management Functions), CRR Firms (Leverage Ratio, Public Disclosure, and Reporting Leverage Ratio), Continuity of Access Rules, and Solvency II Firms (reporting rules for NSTs).

Links: SS 15/16, CP37/16, Waivers by Consent
Keywords: Solvency II, Reporting, Waivers

Proposed Changes to the Prudential Regulation Authority Rulebook

- PRA

October 11, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The PRA published an occasional consultation paper that sets out proposed changes to the following parts of the PRA Rulebook, existing and new supervisory statements (SS).

- Regulatory Reporting part and draft supervisory statement "Supervising international banks: the Prudential Regulation Authority's approach to branch supervision – liquidity reporting" (Chapter 2)
- Own Funds, Group Supervision, and Insurance Company Capital Resources parts (Chapter 3)
- Supervisory Statement SS13/13 "Market Risk" (Chapter 4)
- Ring-fenced Bodies and Notifications parts, and the Rulebook Glossary (Chapter 5)
- Credit Unions part and Supervisory Statement SS2/16 "The prudential regulation of credit unions" (Chapter 6)
- External Audit part (Chapter 7)
- Administration instrument (Appendix 12)

The policy contained in this consultation has been designed in the context of the current UK and EU regulatory framework. The PRA will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework, including changes arising once any new arrangements with the EU take effect. This consultation is relevant to all PRA-authorized firms.

Comments Due Date: October 25, 2016 (Administration Instrument); December 12, 2016 (Chapter 5); January 11, 2017 (Chapters 2,3,4,6,7)
Effective Date: N/A
First Reporting Date: N/A

Links: Notification, CP36/16
Keywords: CP36/16, PRA Handbook

Reporting Instructions for Non-Solvency II Insurance Firms

- PRA

October 10, 2016

Type of Information: Statement

The PRA published a supervisory statement (SS14/16) that sets out its expectations on the completion of regulatory reporting requirements detailed in the "Insurance Company—Reporting Part" of the PRA Rulebook. SS14/16 is applicable to insurance firms that are outside the scope of Solvency II and are not friendly societies (also described as non-Directive insurance firms).

The PRA sought feedback for SS14/16 through the consultation paper titled "Reporting requirements for non-Solvency II insurance firms" (CP18/16). SS14/16 was included in Appendix 3 of CP18/16. Although the PRA received no responses to the proposals in Appendix 3, amendments were made to the SS14/16 (Appendix 3) to:

- Identify the rules that should be read in conjunction with the supervisory statement
- Clarify the PRA's expectation of firms on the use of supplementary notes
- Align the style and structure of the supervisory statement with other similar PRA reporting instructions

The amendments to SS14/16 did not result in a change to the PRA policy and in additional burden to Solvency II insurance firms. The PRA also believes that these changes are not significant enough to require further cost-benefit analysis.

Links: Notification, SS14/16, CP18/16
Keywords: Non-Solvency II Firms, Reporting, SS14/16

Americas

United States of America

Key Developments

Comments Sought on Enhanced Cyber Risk Management Standards

- U.S. Agencies

October 26, 2016

Type of Information: Regulation

Regulatory Status: Proposed Rule

The Board of Governors of the Federal Reserve System (Board), the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC) issued a joint advance notice of proposed rulemaking (ANPR) on the enhanced cyber risk management standards.

These standards apply to large and interconnected entities under the supervision of these U.S. agencies, along with the service providers of those entities. The agencies are considering establishing enhanced standards to increase the operational resilience of these entities and reduce the impact on the financial system in case one of these entities experience a cyber-event. The proposal addresses five categories of cyber standards: cyber risk governance; cyber risk management; internal dependency management; external dependency management; and incident response, cyber resilience, and situational awareness.

The agencies are considering implementing the enhanced standards in a tiered manner, imposing more stringent standards on the systems of those entities that are critical to the functioning of the financial sector. The agencies are considering applying the enhanced standards to certain entities with consolidated assets of USD 50 billion or more on an enterprise-wide basis. Each agency would apply these standards to large institutions subject to their jurisdiction. Thus, the Board is considering applying the enhanced standards on an enterprise-wide basis to all U.S. bank holding companies with consolidated assets of USD 50 billion or more, the U.S. operations of foreign banking organizations with U.S. assets of USD 50 billion or more, and all U.S. savings and loan holding companies with consolidated assets of USD 50 billion or more. The Board is also considering applying the enhanced standards to nonbank financial companies (NBFCs) supervised by the Board, and to financial market utilities (FMUs) designated by Financial Stability Oversight Council (FSOC) (designated FMUs). Other financial entities, including community banks that are not covered entities, would continue to be subject to existing guidance, standards, and examinations related to the provision of banking services by third parties.

Comments Due Date: January 17, 2017
Effective Date: N/A
First Reporting Date: N/A

Links: Proposed Rule, Notice of Proposed Rule in Federal Register
Keywords: Cyber Risk, FMU, NBFC

Canada

Key Developments

Amended Governance Guidelines

- AMF

September 15, 2016

Type of Information: Guideline

The Autorité des Marchés Financiers (AMF) amended the governance guidelines on the interpretation, execution, and application of a financial institution's legal requirements. These guidelines set out expectations regarding a financial institution's legal requirement to follow sound and prudent management practices. The amendments reflect the evolution of principles of sound and prudent management emanating from the international bodies (including the Basel Committee and the IAIS).

The earlier version of this guideline has been in effect since April 01, 2009, under to which the AMF expects each financial institution to have developed strategies, policies, and procedures based on its nature, size, complexity, and risk profile and to have adopted the principles underlying this guideline since April 01, 2011. Now, with the release of the amended guideline, AMF expects financial institutions to adopt the new expectations of the amended guideline and implement them by September 15, 2017. However, if an institution has already set up such a framework, the AMF may verify whether the framework enables it to comply with the legal requirements.

This amended guideline is intended for insurers of persons (life and health), damage (property and casualty) insurers, portfolio management companies controlled by an insurer, financial services cooperatives, as well as trust and savings companies. This guideline also applies to financial institutions operating independently as well as to financial institutions operating as members of a financial group. With regard to the financial services cooperatives and mutual insurance associations that are members of a federation, the standards or policies adopted by the federation should be consistent with the principles of sound and prudent management, as discussed in this guideline.

Keywords: DCAT, Governance

Asia Pacific

Australia

Key Developments

Snapshot of Industry Practices in Risk Culture

- APRA

October 18, 2016

Type of Information: Statement

Australian Prudential Regulation Authority (APRA) published an information paper providing a snapshot of the current practices in risk culture in a range of banking, insurance, and superannuation businesses. The paper notes that, while there has clearly been a stronger focus on risk culture in the recent years among APRA-regulated institutions, continued effort and ongoing attention is required by institutions to better understand and manage their risk cultures. It also highlights that:

- The approaches to understand and manage risk culture are at a relatively early stage of development
- Many institutions are grappling with the best ways to articulate their aspired risk culture, identify specific weaknesses in their current risk culture, and effectively address those weaknesses

This analysis is the result of APRA's information gathering exercise in relation to industry practices on risk culture, which it began in late 2015. Underpinning much of the work has been APRA's Prudential Standard CPS 220 Risk Management, which came into effect on January 01, 2015. CPS 220 requires each Board of an authorized deposit-taking institution or an insurer to form a view of the risk culture in their institution, identify any desirable changes to that risk culture, and ensure the institution takes steps to address those changes. Risk culture can be described as the influence of organizational culture on how risks are managed in an organization.

Links: Media Release, Information Paper, Prudential Standard CPS 220
Keywords: Risk Culture

Glossary

AMF	Autorité des Marchés Financiers—the Quebec Financial Regulator
APRA	Australian Prudential Regulation Authority
BCR	Basic Capital Requirement
CCP	Central Counterparty
CIR	Commission Implementing Regulation
CMU	Capital Markets Union
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
DCAT	Dynamic Capital Adequacy Test
EU	European Union
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECON	Economic and Monetary Affairs
EIOPA	European Insurance and Occupational Pensions Authority
ESAs	European Supervisory Agencies
ESCB	European System of Central Banks
ESMA	European Securities and Monetary Authority
ESRB	European Systemic Risk Board
FDIC	Federal Deposit Insurance Corporation
FED	Board of Governors of the Federal Reserve System
FINMA	Swiss Financial Market Supervisory Authority
FMI	Financial Markets Infrastructure
FMUs	Financial Market Utilities
FSB	Financial Stability Board
FSOC	Financial Stability Oversight Council
FVC	Financial Vehicle Corporation
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
ICP	Insurance Core Principle
ICPF	Insurance Corporations and Pension Fund
ICS	Insurance Capital Standards
IMF	International Monetary Fund
ITS	Implementing Technical Standards
KID	Key Information Document
KIID	Key Investor Information Document
MFI	Monetary Financial Institution
MiFID	Markets in Financial Instruments Directive
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
NBFCs	Nonbank Financial Companies
NST	National Specific Template
OCC	Office of the Comptroller of the Currency
OFIs	Other Financial Intermediaries
PEPP	Pan European Personal Pension Products
PRA	Prudential Regulation Authority
PRIIPs	Packaged Retail And Insurance-Based Investment Products
QFT	Qualitative Field Testing
RTS	Regulatory Technical Standards
SCR	Solvency Capital Requirement
SFT	Securities Financing Transaction
SIFMA	Securities Industry and Financial Markets Association
SPD	Single Programming Document
SSM	Single Supervisory Mechanism
SST	Swiss Solvency Test
TLAC	Total Loss-Absorbing Capacity