Evolving Insurance Regulation
The journey begins
Part two
Regional Regulatory Developments
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ABOUT THIS REPORT

This report is part of a regional series developed by KPMG’s network of regulatory experts. The insights are based on discussion with our member firms’ clients, our professionals’ assessment of key regulatory developments and through our links with policy bodies in each region. Evolving Insurance Regulation – The journey begins is produced in two parts this year.

Part one considers the international developments that are dominating regulatory change and includes key insights from regulators and industry practitioners.

Part two looks at the regional regulatory developments by country (where available) to provide local insights on the shape of our industry in each market.

For other regional reports, please contact fsregulation@kpmg.co.uk or see www.kpmg.com/regulatorychallenges

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Changes in the Americas vary between the north and the south, but both continents are moving toward increased group supervision, a risk focused approach to regulation, and expanded consumer protection.
The US regulatory system is globally unique due to the different roles of federal and state bodies, which can make the legislative process challenging.

State insurance regulators have primary responsibility for insurance supervision, but their work is coordinated through the activity of the National Association of Insurance Commissioners (NAIC). The NAIC directs changes to insurance regulatory requirements through amendment of its model laws, but it has no power to directly impose these reforms on the various states. However, its accreditation program (under which states are fully assessed every five years regarding adoption and implementation of the model laws) does create a strong incentive for enactment of the NAIC model laws.

The Federal Insurance Office (FIO) sits within the US Department of Treasury and has the authority to monitor all aspects of the insurance sector, including representing the USA on prudential aspects of international insurance matters. It also advises on important national and international insurance issues, but does not have any supervisory role, which remains with state regulators.

The Federal Reserve Board (FRB) has consolidated oversight over any non-bank entity designated as systemically important (currently AIG, Prudential Financial and Met Life) and any insurance holding company that operates a federally chartered thrift institution. The insurance groups for which the FRB is the consolidated supervisor hold approximately one-third of US insurance industry assets.

ICP compliance

The April 2015 FSAP report cites significant improvements since the 2010 FSAP, including the FIO’s role in setting priorities and the FRB’s role extension to include insurance. However, it also states that additional work is needed regarding the valuation standard for life insurance, group capital standards, governance, risk management, market conduct and intermediary supervision. The report recommends strengthening FIO’s role to bring about convergence on uniform high standards of regulation and comprehensive market oversight.

Prudential developments – National Association of Insurance Commissioners (NAIC)

The NAIC has initiated many changes over the past year to implement more comprehensive supervision for insurance holding companies and groups. The key elements of these reforms are covered below.

Group Supervision

In 2010, the NAIC adopted changes to its Model Holding Company System Regulatory Act requiring additional reporting from insurance groups including investments, purchases, guarantees, management agreements, and distributions.
Recent changes to the Model Act also give the commissioner authority to act as the group-wide supervisor, with amendments including:

- Clarification regarding selection of a group supervisor for an IAIG, with criteria including place of domicile of the largest insurer within the group, location of the executive offices, and whether another supervisor is acting as the group-wide supervisor.

- The specific duties to be performed at the group level, including assessing the enterprise risks; requesting information on governance, capital, and inter-company transactions; and communication and coordination with other regulators.

**Corporate Governance**

During 2014, the NAIC adopted the Corporate Governance Annual Disclosure Model Act to address issues raised in the 2010 FSAP and the FIO’s Modernization Report. This act requires insurers to disclose their corporate governance practices to their lead state regulator. At a minimum, the disclosure is required to address the insurer’s corporate governance framework and structure; policies and practices of its board and significant committees; policies and practices of senior management; and oversight of critical risk areas. The first annual disclosure is due by 1 June 2016.

The NAIC also adopted revisions to the Annual Financial Reporting Model Regulation to incorporate an internal audit function requirement for large insurers (writing more than US$500 million in annual premium) in accordance with ICP 8 requirements. The function is required to be organizationally independent from management and must report annually to the audit committee.

**Enterprise Risk Management**

For two years, the NAIC has been testing its Own Risk and Solvency Assessment (ORSA) requirements, with over a third of the states having adopted the model law. The ORSA requirements apply to any individual US insurer that writes more than US$500 million of annual direct written and assumed premium, and/or insurance groups that collectively write more than US$1 billion of annual direct written and assumed premium. Initial reports are due in 2015. The NAIC has also developed an ORSA Guidance Manual to provide guidance to the insurer and insurance groups in completing their ORSA reports.

The ORSA has two primary goals: to foster an effective level of ERM at all insurers and to provide a group-level perspective on risk and capital, as a supplement to the existing legal entity view. Insurers are expected to:

- Regularly (no less than annually) conduct an ORSA to assess the adequacy of its risk management framework, and current and estimated projected future solvency position.
• Internally document the process and results of the assessment
• Provide a confidential high-level ORSA Summary Report annually to the lead state commissioner if the insurer is a member of an insurance group and, upon request, to the domiciliary state regulator in which the group does business.

A new Enterprise Risk Report (Form F) has also been introduced for firms to identify and report their enterprise risk. These model law changes have been adopted in around half of the 50 states.

Group Capital

Group capital requirements are perhaps the most difficult challenge for the US regulatory system to address. The NAIC, FIO and FRB have been developing a group capital proposal aimed at meeting the ICS standard set by the IAIS. The FRB hopes to be able to use the eventual standard as a basis for its consolidated capital requirement.

The NAIC has adopted principles for a US capital standard, which include:

• The main objective of a U.S. Group Capital Proposal (GCP) is for the protection of policyholders. Well-capitalized IAIGs also support the goals of financial stability.
• The GCP aims at comparability of outcomes across jurisdictions and among IAIGs, which will enable increased cross-border supervisory cooperation and collaboration.
• The GCP is a consolidated group-wide standard at the level of the insurance group that provides for a risk-based measure of capital adequacy. The level of consolidation is generally at the financial holding company level that is immediately above the insurance entities.
• The GCP reflects all known material risks.
• The GCP aims to minimize pro-cyclical outcomes.
• The GCP reflects an appropriate balance between risk sensitivity and simplicity.
• The GCP reflects appropriate target criteria for the regulatory capital calculation.
• The GCP respects the jurisdictional accounting requirements (for example, GAAP, IFRS, or other comprehensive bases of accounting).

All parties have been particularly strong in saying that any group capital requirement in the US must be based on US GAAP (or statutory accounting if no GAAP report is filed) which is not consistent with the IAIS’s proposed market-adjusted valuation approach outlined in the ICS consultation document. As a result, the IAIS is field-testing both options.

Currently the NAIC is examining two options for setting a group capital requirement: one using cash flow stress testing and the other an enhancement of the current risk based capital (RBC) system. The proposed “RBC Plus” system would retain the current US GAAP valuation basis, use a consolidated rather than aggregated approach, and retain current segmentation. The largely factor-based methodology would lend itself to verifiable and auditable information. The cash flow concept would follow the general methodology of asset adequacy testing. It would use internal models approved by the regulators and include all risks shown in the ORSA. The NAIC is also considering a combination of the two approaches, described as a hybrid approach.

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Principles-Based Reserving for Life Insurance (PBR)

The NAIC continues to push for adoption of its new principles-based reserving (PBR) system for life insurance, relying upon an insurer's internal risk modeling to calculate reserves. To implement PBR, state legislatures must adopt both the Standard Valuation Model Law that was approved by the NAIC in 2009 and the 2012 revisions to the NAIC Standard No Forfeiture Law. PBR will only be operational once it has been adopted in at least 42 US jurisdictions, accounting for 75 percent of US life insurance premiums combined. To date 20 states have enacted principles-based reserving.

Reinsurance Reform

For several years, non-US reinsurers have been pushing to reduce or eliminate collateral requirements in the US and to simplify the state-by-state authorization process for reinsurers. In 2011, the NAIC modified its Model Reinsurance Collateral Law, renaming it the Credit for Reinsurance Model Law. The next year the Reinsurance Task Force was charged with developing a process to evaluate qualified jurisdictions. That process for developing and maintaining the list of qualified jurisdictions was adopted in August 2014. Once certified in a lead state, reinsurers from a qualified jurisdiction will be eligible for reduced collateral requirements and will also have the option of passporting among US states. Around half of the states now have adopted the model law changes, and the NAIC is now considering making the reforms necessary for accreditation, which could see more states comply.

There are currently seven qualified jurisdictions (Bermuda, France, Germany, Ireland, Japan, Switzerland and the UK) and the NAIC has adopted a common application for certifying reinsurers.

However, FIO has noted that application of the model law has not been uniform in structure or implementation and the Model Reinsurance Collateral Law relies heavily upon assessments of reinsurers' creditworthiness by credit rating agencies, rather than on risk-based empirical factors. FIO therefore continues to seek a federal covered agreement (see below) to address the collateral issue.

Prudential developments – Federal Insurance Office

During 2014, FIO has continued to work on implementation of the recommendations in its 2013 report, How to Modernize and Improve the System of Insurance Regulation in the United States.

The Dodd-Frank Act authorizes the Secretary of the Treasury, jointly with the US Trade Representative (USTR), to negotiate and enter into a “covered agreement” with one or more foreign governments, authorities, or regulatory entities regarding “prudential measures with respect to the business of insurance or reinsurance.”

One priority for FIO has been the EU-US Project which FIO formed in 2011 to increase mutual understanding between the US and Europe regarding insurance regulation. The EU-US Project updated its 2012 recommendations in July 2014, calling for a broad covered agreement between the jurisdictions in the areas of collateral reform, group supervision, and professional secrecy. These three areas are critical to any European equivalence decision for the US under Solvency II. Both the FIO and the European Commission have indicated they expect to begin negotiations by May 2015 on the agreement.

In the meantime, the FIO is proceeding in other areas. In 2014, it:

- Continued to push for renewal of the Terrorism Risk Insurance Act (TRIA) which was approved in January 2015, and the national flood insurance program.
• Supported adoption of the National Association of Registered Agents and Brokers Reform Act of 2013 (NARAB II). FIO intends to monitor life insurance sales and the number of life insurance agents and brokers to ascertain whether policymakers should consider efforts beyond NARAB II to facilitate agent licensing and access to retirement security through life insurance and annuity products.

• Continued to urge states to develop a uniform and transparent solvency oversight regime for the transfer of risk to reinsurance captives.

• Continued to work on consumer issues including: access to insurance and affordability, unclaimed life property, suitability of annuities, and portability of automobile insurance for servicemen.

• Promoted uniformity in producer licensing laws.

• Investigated cyber-risk issues in insurance.

Prudential developments – Federal Reserve Board

The FRB joined the IAIS as a member in 2014 and is serving on several key committees, including capital development.

Being responsible for the oversight of the US systemically designated insurers, the FRB is in a position to chair several regulatory colleges and has said it is committed to tailoring its supervisory framework to the specific business lines and risk profiles of the groups it oversees. Efforts to date have focused on strengthening firms’ risk identification, measurement and management, internal controls, and corporate governance.

The FRB is currently developing a capital standard for non-bank SIFIs, following stress tests conducted in late 2014. The Insurance Capital Standards Clarification Act of 2014 specified that statutory accounting principles can be used by the FRB in overseeing insurance groups. The FRB now has latitude to move beyond the bank capital standards and is working with the NAIC and FIO to explore a group capital requirement for US international groups as mentioned above.

Conduct of business and consumer protection

Market conduct issues in the US are also regulated at the state level. Although there are model conduct laws adopted by the NAIC, there is less uniformity in the conduct area than in prudential supervision. FIO in its Way Forward report identified a number of areas for action regarding consumer protection and market conduct, asking the NAIC to consider the best way to address these concerns. The NAIC has responded by developing a national database of information regarding market conduct complaints and improving the market conduct examination process. The NAIC is also considering including market conduct in its accreditation process.

The NAIC Market Conduct Examination Standards Working Group has also adopted health reform-related market conduct examination standards relating to prohibition of excessive waiting periods and health reform-related market conduct examination standards relating to essential health benefits. The NAIC will also soon adopt market conduct examination standards for the health reforms in the federal Affordable Care Act.
Recent international developments in regulation and growth in the Bermuda market have resulted in the Bermuda Monetary Authority (BMA) enhancing its regulatory regime to protect both public interest and the reputation of Bermuda as an insurance centre. Regulation now comprises a risk-based capital measure and a transparent financial reporting requirement for companies with significant third-party exposures and a ‘Code of Conduct’ setting out governance and risk management principles for all insurance companies licensed by the BMA.

ICP compliance and Solvency II equivalence

The BMA has adopted a risk-based approach to regulation, incorporating the revised IAIS core principles, allowing for greater oversight of companies with riskier profiles.

On 19 December 2014, EIOPA released consultation paper EIOPA-CP-14/042 on Equivalence assessment of the Bermudian supervisory system in relation to articles 172, 227, and 260 of the Solvency II Directive. This report was an update to the report issued in 2011. EIOPA’s final report was issued on 10 March and the equivalence decisions now reside with the European Commission. Background to equivalence is provided in the Europe section of this publication.

In relation to the articles, EIOPA determined that the Bermuda supervisory system was largely equivalent across insurers of Classes 3A, 3B, 4, C, D and E with caveats listed out relating to each article. The caveats vary in degree and nature, with Classes 3B and 4 looking closest to full equivalence. The BMA has been addressing these caveats through the issuance of additional consultation papers, with the economic balance sheet (EBS) changes potentially the most significant.

Prudential developments

In December 2014, the BMA released a consultation paper outlining their EBS framework, which is a principles-based approach accompanied by supporting guidelines. The proposals in this paper apply to Bermuda commercial insurers and insurance groups or Bermuda groups for which the BMA is the group supervisor.

The BMA proposes embedding the EBS Framework as part of the Capital and Solvency Return (C&SR), and it would then form the basis for the insurer’s Enhanced Capital Requirement (ECR). Insurers would still be required to provide statutory financial statements as currently required under the Insurance Act 1978 until such time as the BMA revises the statutory basis of financial reporting.

The BMA will also be making amendments to the prudential standards governing solvency requirements for the affected insurers and insurance groups. The C&SR will include a new EBS Schedule containing a balance sheet whose components would be valued using the EBS principles previously consulted upon.
Many of the existing Schedules in the C&SR which refer to the present statutory balance sheet will be adjusted to refer to the EBS Schedule. Final rules will be made and are intended to come into force on 1 January 2016 for insurance groups, Class 4 and 3B insurers, while for Class 3A insurers the rules will come into force on 1 January 2017, although the BMA is proposing advancing this date to 1 January 2016.

It is intended that Class C, D and E life insurers will also submit EBS results for reporting periods ending 31 December 2015 with their usual statutory reporting in 2016. This should include insurance technical provisions on current valuation principles. Additionally, valuations for insurance technical provisions on EBS principles should be submitted as supplementary information in 2016 on a voluntary basis, but this supplementary reporting should be included in 2017 and 2018 filings.

Conduct of business and consumer protection

As part of its Code of Conduct, the BMA requires domestic retail insurers to establish and maintain procedures to ensure compliance with its market conduct guidance. This includes Board approval for a policy statement on the treatment of policyholders, with disclosure requirements that are designed to protect policyholders both before and after entering into a contract.
Canada became one of the first countries to implement ORSA when its requirements became effective in 2014, with first reports due at the end of 2014. Quarterly reporting of key risk metrics for capital and risks will begin in 2015.

The Canadian life insurance industry is dominated by a few major domestic companies, with foreign companies diminishing with the sale of some Canadian operations previously owned by foreign companies back to domestic players. While consolidation has largely run its course for life insurance, there is still considerable opportunity for more merger and acquisitions transactions in general insurance, which is much less concentrated.

Canadian insurance regulators continue to strengthen local regulatory practices to align even more closely with the ICPs. While most of the larger insurers are subject to solvency regulation at the federal level, by The Office of the Superintendent of Financial Institutions (OSFI), a number of smaller insurers are regulated by a province, with provincial regulators also becoming more closely aligned with the ICPs. For example, Alberta and British Columbia have substantially adopted the same regulatory requirements as OSFI.

Market conduct matters are regulated by each province, and the trend to close alignment with the ICPs continues in this area too.

ICP compliance
The IMF issued its FSAP assessment report in February 2014. Overall, they found that OSFI has a high level of compliance with the ICPs, supported by robust prudential supervision. The main development drawn out in the overall summary related to the scope for implementing a more consistent regime of group-wide supervision, including both prudential and market conduct requirements. Going forward, the IMF recommended that OSFI be empowered to take supervisory measures at the level of the holding company and require broader disclosures at the group level.

Prudential developments
OSFI continues to update the minimum capital regime and promote improved risk management practices through measures such as introducing ORSA requirements. Key developments include:


- **ORSA requirement implemented:** Canada became one of the first countries to implement ORSA its
requirements became effective in 2014, with first reports due at the end of 2014. Quarterly reporting of key risk metrics for capital and risks will begin in 2015.

- **Canadian regulatory capital requirements**: The standard model for capital continues to evolve, with active industry consultation and field-testing. This process has led to changes that go beyond simple recalibrations, with specific capital measurements of operational risk and credit for diversification being introduced. However, acceptance of internal capital models by regulators appears likely to be gradual.

### Conduct of business and consumer protection

Canadian insurers have not had to confront major consumer complaints or the “loss of trust” issues prevalent in many other jurisdictions in recent years. Nevertheless, the influence of international standards developments, driven by the ICPs, has not stopped with corporate governance, risk management and capital regulation.

The ICPs related to insurers’ conduct of business and the use of intermediaries are also affecting market conduct regulation. Provincial financial service regulators are responsible for market conduct by insurers, and are showing interest in the Organization for Economic Co-operation and Development (OECD) papers on *Principles on Financial Consumer Protection*, including concepts such as Treating Customers Fairly (TCF) and Customer Outcomes. This appears to be leading to a more demanding market compliance environment for Canadian insurers, including a need for a robust conduct risk framework.

Auto insurance continues to be a hot spot for regulators, insurers and consumers, with consumer concerns over affordability coupled with insurer concerns over controlling claims costs, including reducing their exposure to fraudulent claims.
The total number of insurers has dropped from 230 to 180 in the past decade, with the most significant decline being felt by life insurers and annuity providers, which fell from 73 to 55 insurers. The top 20 companies account for half of total annual premiums.

The Argentinian insurance industry’s future is somewhat uncertain due to the impact of the economy’s deceleration and the high level of inflation, which negatively impacts on insurance business (for example outdated insured amounts, higher administrative expenses, continued impact on cost structures and financing and interest rate issues). Increased market activity levels will depend on increased supply of products and services in sectors driving growth and on a rise in the penetration rates in less explored segments (such as life insurance).

The local reinsurance market, created in 2012, is also consolidating. However, reinsurance operators are concerned because although the Superintendencia de Seguros de la Nación (SSN) has acted to streamline the process to control, supervise and approve the purchase of foreign currency to be remitted abroad (required for the payment of retrocession premiums), the limited quotas of foreign currency endanger the continuity of coverage due to delay in payments.

ICP compliance

The national government is working on a Bill to reform the current insurance law, which would provide a new legal framework to the business, although the wording of the draft Bill is still unknown and advances towards convergence to IFRS are not expected in the short/mid-term.

During 2012, and as requested by the national government, the SSN introduced the “National Strategic Insurance Plan (PlaNeS) 2012-2020” which has three aims: help the market grow, protect the insured, and improve the control capacity of the supervisory board. Two years after its introduction, this has seen following outcomes:

- The SSN has shown greater activity in terms of insured’s support and assistance.
- On Voluntary Retirement Insurance, the SSN, jointly with the Association of Life and Retirement Insurance Companies, are working on a project called “Hoy por mañana”; whereby they are seeking to mitigate the financial imbalance that individuals may suffer between their productive and passive stages of life.
- Tax benefits updates for life insurance was a long postponed issue, but has recently been included in the agenda of the Ministry of Economy.

The SSN continues working to launch a massive advertising campaign aimed at raising awareness among the population to increase the penetration rate of non-mandatory insurance products.

Additionally, a meeting between the World Bank and the SSN was held, within the framework of PlaNeS 2012-2020,
to show the progress made in various work areas. The presentation by World Bank representatives referred to the Risk-based Supervision Project. They introduced a preliminary Risk-based capital model applicable in Argentina, as well as group supervision and early warning systems. Topics discussed at the meeting focused on risk-based supervision, on site examinations, risk categories, inherent and residual risk and qualitative assessment.

During the second half of 2014, the SSN issued anti-fraud regulations, requiring companies to set their own rules on anti-fraud policies, procedures and internal control, and to abide by them.

Conduct of business and consumer protection

Insurance agents and brokers are the primary distribution channel for Argentine insurers, although bancassurance continues to grow as an alternative distribution channel (mainly for life, motor and personal accident insurance). The sale of insurance products by banks is supervised by the SSN, which has recently issued new regulations requiring banks to obtain SSN’s authorization to offer this service. In addition, banks shall:

- Register as entities that sell insurance products
- Appoint an individual responsible for this service (who shall have knowledge of the insurance field) within their organization
- Train the personnel involved in each of the points of sale and
- Keep records (in line with those of the corresponding insurer) of sales made (issuances) and losses.

During the second half of 2014, the SSN issued anti-fraud regulations, requiring companies to set their own rules on anti-fraud policies, procedures and internal control, and to abide by them.

Prudential development

Up to now, the SSN has not issued any standards in relation to the notion of “solvency” as it is understood in the international market; however, it has set some requirements in relation to minimum capital and internal controls for accounting purposes.
Brazil has the largest insurance market in Latin America. The market continues to be dominated by bancassurers, supplemented by national and international insurance companies and there were no significant changes to its composition during the year.

2014 was a challenging year for the Brazilian economy with high inflation and low GDP growth. Although the growth in total insurance premiums was lower than in 2013, it remained higher than the increase in GDP, indicating that insurance remains a developing sector with growth potential coming from the bancassurance sector and increased penetration rates. One economic variable that has had a significant impact on the insurance industry has been the volatility of the short-term, and especially the long-term, interest rates which continued in 2014. Changes to accounting rules, and the quantum of the changes in relatively short time periods, have meant that management has been focused on understanding the impacts on profit and capital and how these can be minimized.

There were no changes in the number or scope of the three insurance specific national regulators:
- Previc is responsible for closed, private pension plans
- ANS is responsible for health insurance and
- SUSEP is responsible for all other types of insurance and re-insurance.

However, a new superintendent of the Superintendence of Private Insurance (SUSEP) was appointed in early 2014, which is likely to bring substantial changes to the regulator in the coming months and years.

ICP compliance

The most recent FSAP was undertaken in 2012. In this review the following ICPs were classified as 'not observed':
- ICP 16: Enterprise Risk Management for Solvency Purposes
- ICP 23: Group Wide Supervision and
- ICP 26: Cross-border Cooperation and Coordination on Crisis Management.

A further five were classified as being only ‘partly observed’. In its strategic goals (which were last updated in July 2014), SUSEP included the constitution of a committee and the elaboration of a plan of action to improve observance of the ICPs, with a goal of improvements to the classification of two ICPs per year in each of 2014 and 2015.

Recent comments by the Superintendent of SUSEP indicate that the regulator is looking to develop a more technological approach to supervision, the surveillance of macro-economic factors and the assessment of their impact on individual insurers. This would be another step in the alignment of SUSEP’s practices with the ICPs.
Prudential developments

The solvency capital regime in Brazil has undergone significant changes since 2010 and is now more risk sensitive with specific capital requirements for subscription risk, credit risk and operational risk in force at the end of 2014 and also a requirement for liquid assets of at least 20 percent of the minimum capital requirement. At the end of 2014 SUSEP issued a resolution defining the calculation for market risk and a phased-in approach for its inclusion in the determination of capital requirements, which is expected to have a significant impact on insurance minimum capital requirements.

Another significant change in 2014 related to external audit requirements. SUSEP introduced the requirement for a specific, annual ‘actuarial audit’ in addition to the biannual audits of the financial statements. According to the regulations, this actuarial audit should cover, among other things:

- The adequacy of the technical reserves
- The data, assumptions and methodologies used in the calculation of the minimum capital requirement
- The quality of other data sent to SUSEP in regulatory returns.

At the same time SUSEP also introduced auditor rotation requirements for both the actuarial audit and the financial statement audit that mean that regulated entities will have to change auditors every five years.

Conduct of business and consumer protection

Bancassurance and insurance brokers are the primary distribution channel in the Brazilian market. All brokers need to be registered with SUSEP but they are not subject to its regulations and the supervision and disclosure requirements applicable to these brokers were observed as being ‘thin’ in the 2012 FSAP report. In early 2015, SUSEP updated its requirements for broker registration but has not made further significant headway in addressing the observations made in the FSAP report.

Customer protection is, however, a significant concern of SUSEP as evidenced by the tightening of regulations around extended guarantee insurance (which is often sold with electro-domestic products) which included requirements for specific risk coverage, a defined period in which the customer can cancel the insurance coverage and requirements in relation to the information that must be given to the client. There was also a regulation released at the end of 2013 in relation to the sale of insurance policies via the internet, which seeks to ensure the protection of the client’s data as well as establishing minimum amounts of information that must be provided to the clients before and after the purchase of products via this channel.
2014 was a very challenging year for the insurance market in Chile due to the effects generated by certain macroeconomic variables, such as the value of US dollar, the decrease in the Government notes interest rate, tax reform and the large earthquake that hit the Northern zone of Chile in the city of Iquique.

ICP compliance
While Chile is not one of the mandated countries for FSAP review against the new ICPs, the local regulator has been enhancing the standards related to corporate governance and supervision based on risk. The regulator has also been very active in regulating financial conglomerates (involving insurance companies, banks and other investment companies), seeking to mitigate liquidity and contagion risks and independence issues.

Prudential developments
Recently, the Chilean regulator, the Superintendency of Securities and Insurance (SSI), issued a third update of the Risk-Based Capital framework methodology to measure and quantify risk-based capital. The SSI also introduced other changes in regulations relating to the recognition in the financial statements of reinsurance fees and commissions, and the use of a rate vector for the asset sufficiency test (AST) and for the calculation of the cost equivalent rate for pension-related life annuities.

The update to the RBC framework is mandatory for the insurance market, and the results are required to be submitted no later than 29 May 2015. In this third version, the SSI has continued to calibrate the standard formula and capital factors, with the purpose of generating incentives for the industry, in terms of investment, insurance product offerings and risk management; focusing on the required solvency levels for the protection of policyholders and encouraging healthy sector developments.

Conduct of business and consumer protection
Recent changes were made to insurance legislation in Chile, seeking modernization with an aim to reach international standards. There are different views on the effects of these changes. The government highlights that the change will bring fairness through mandatory minimum standards that will benefit insurance consumers by providing a framework of judicial certainty about rights and obligations. Collective insurance contracts, including those acquired by banks and employers, will have a direct benefit, receiving better protection. The approved legislation also defines basic terms in the insurance business, clearly establishes the different insurance types and outlines the minimum requirements for an insurance contract, all of which should enhance the communication to consumers.
The insurance market in Mexico comprises around 100 insurance companies and branches, with around 60 percent of the market comprising subsidiaries of foreign groups.

A new law for insurance and surety companies has been introduced, replacing two very old laws: The General Law of Insurance Institutions and Mutual Societies (1935) and the Federal Surety Institutions (1950) and their various amendments. The new Insurance and Surety Institutions Law (LISF) was published on 4 April 2013 and it enters into force on 6 April 2015. The most important objective of the LISF is to implement a framework similar to Solvency II in Mexico, with transitional arrangements meaning that certain quantitative and disclosure requirements do not become effective until 1 January 2016.

Considering that the aim of the legislative strategy is to ensure firms’ solvency, it is conceivable that this could lead to market consolidation and the possibility of new entrants, attracted by increased competition, resulting in the market becoming dominated by higher quality firms.

ICP compliance

The last FSAP review was undertaken in 2011. According to the National Insurance and Surety Commission, the level of compliance with the ICPs is already around 93 percent, but implementation of the LISF will see this level increase to 97 percent.

Prudential developments – Regulatory capital

The new risk-based regulatory capital framework introduced by LISF will be implemented gradually, starting with the new pillar 2 corporate governance requirements from 6 April 2015.

During the first two years, the market will have to determine its risk based capital according to the standard formula using software provided by the regulator. After this period, companies will be able to submit requests for approval of an internal model, requiring a two year parallel testing period.

Regarding technical provisions, all companies must register the methodologies they intend to use based on the best estimate liability plus risk margin, by no later than the end of September 2015.

A full 2015 closing position will be required under the new LISF requirements.

Prudential developments – Risk management and governance

As well as strengthening the capital and solvency regime, the LISF also introduces measures aligned with Solvency II’s pillar 2 requirements, including a more flexible approach to investments and strengthening of corporate governance, focused on risk management with an increased level of transparency and disclosure.
Another major change in the LISF is the creation of “Surety Insurance” (allowing its use for securing obligations and providing compensation to the insured for damages suffered as a result of breach of contract) and an adjustment to the micro insurance regulatory framework. This change was possible because the insurance and surety market has developed the technical capacity to successfully move towards risk-based management. Also the actuarial and accounting professions have the necessary professional guild strength to drive the development and adoption of best practices that are necessary to implement the new regulatory model.

The main challenges in the implementation of the LISF are:

• Understanding of the technical requirements and the new procedures required to determine the technical provisions and solvency capital requirement

• Development of a culture of transparency and information disclosure as a basis for expanding public confidence in these financial services

• The internalization of the risk management process as part of the system of corporate governance and business management.

Conduct of business and consumer protection

As shown above, the focus of insurance regulatory reforms has been on the prudential side, and there are no new developments to report on the conduct side.
Changes have continued across ASPAC towards developing economic valuation-based frameworks. This is increasing pressure on insurers to develop economic capital models. It is also leading to a much greater regulatory focus on improving risk management frameworks and group-wide capabilities.
Across the Asia-Pacific region, 2014 witnessed increased supervisory attention in the following items, and these reforms will continue throughout 2015:

- More risk-based supervision and changes in how supervisors conduct both off-site and on-site supervision
- Greater focus on Board and Senior Management relating to compliance and risk assessments
- Increased focus on group-wide supervision and systemic issues
- More detailed reviews of off-balance sheet and non-insurance business exposures
- Greater scrutiny of an insurer’s outsourcing policies for key roles and functions
- Additional data requests of insurers, with the objective of enhancing macro-prudential surveillance.

The changing landscape that is now occurring across the region mirrors the experience of other jurisdictions and is reflected in Figure 1.

Figure 1: Developments in Asia following global regulatory developments
From risk based capital to risk based supervision

Risk based capital regimes take many and different forms – from risk weighted formulaic solvency calculations through to full risk based supervision and approved internal models

Source: KPMG International 2015.
The general and life insurance segments in Australia are dominated by a few large players that have maintained their market position during 2014. There is no restriction on foreign ownership of insurance companies, subject to compliance with the Insurance Acquisitions and Takeovers Act, Financial Sector Shareholdings Act and Foreign Acquisitions and Takeovers Act.

Distribution is dominated by direct sales, broker and agency channels. The market clearly distinguishes between general, life and health insurers. Only a few insurers act across all segments.

An Australian Financial Services license is generally required to distribute insurance products. In recent years aggregators have entered the market, challenging the established distribution channels, in particular for health insurance.

The regulatory environment has experienced a year of change, with the landmark developments being the Australian Prudential Regulation Authority (APRA) cross industry Risk Management Prudential Standard (CPS 220) and the development of the Level 3 Conglomerate Framework.

More broadly, APRA remains focused on capital, governance and risk management practices. There have not been any material insurance developments from Australia’s corporate and competition regulators during 2014.

The final recommendations following a major Financial Systems Inquiry (FSI) commissioned by the Australian Government were released in December 2014. The FSI was charged with examining how the financial system could be positioned to best support Australia’s economic growth, with a particular focus on fostering efficiency and competition. While the Government is expected to respond in the first half of 2015, the Australian insurance industry is likely to be faced with enhanced conduct, remuneration and disclosure measures (in relation to their dealings with policyholders and financial advisors).

ICP compliance

The last FSAP assessment took place in 2012, showing a high level of compliance with ICPs generally. Since then, significant enhancements of the regulatory regime have taken place.

Prudential developments – regulatory capital

APRA’s new risk-based regulatory capital framework for the insurance industry (often referred to as Life and General Insurance Capital (LAGIC)) was introduced in January 2013 and follows a similar three pillar approach to Solvency II. Every insurer has now completed at least one financial year under the new capital standards and has prepared an Internal Capital Adequacy Assessment Process (ICAAP) Summary Statement (equivalent to ORSA) and an ICAAP Report (which provides a detailed breakdown of capital performance in the preceding financial year). ICAAPs are subject to
A periodic independent review over a three-year period and there is evidence of some insurers already addressing this requirement.

As part of the LAGIC requirements, Australian insurers have adopted the Basel III Capital definitions. There was a strong level of capital issuances in the Australian market in 2014 with many lower grade capital issuances including Basel III's debt to equity conversion provisions. These issuances can only be converted to full equity capital upon a determination of non-viability by APRA and they have tended to trade at low premiums above their former vanilla counterparts.

Whilst the Australian insurance market does not have any G-SIIs, it is likely to have several domestically systemic insurers, although identification of these is still in the elementary stages. KPMG expects that the major and highly specialized Australian insurers are likely to be captured. These insurers may be required to hold higher levels of capital in addition to undertaking recovery and resolution plans, in line with the approach for the banking sector, which focused on the need for higher loss absorbency and recapitalization capacity.

**Prudential developments – risk management and governance**

In January 2014, APRA released a package of final cross-industry risk management requirements (known as CPS 220) which became effective from 1 January 2015. These apply to Authorized Deposit-Taking Institutions, general and life insurers, authorized non-operating holding companies, and single industry groups. The standard’s objective is to ensure consistent application of its risk management requirements across the regulated industries, with APRAs approach based on a three lines-of-defence risk governance model.

The key requirements are:

- APRA requires a designated person to be responsible for the risk management function. This person must have the appropriate authority within the company to be able to sufficiently challenge senior management and provide comprehensive risk analysis and reporting.
- CPS 220 precludes the Appointed Actuary from being the CRO, CEO, CFO or Head of Internal Audit.
- CRO must have a direct reporting line to the CEO and Risk Committee.
- CRO may also have responsibility for the compliance function.
- Insurers may engage the services of an external service provider to perform part of the risk management function where they can demonstrate that the risk management function meets certain requirements.
- Boards required to form a view regarding risk culture within their organizations to ensure alignment with risk appetite strategy and the broader risk management framework (where external and internal audit and other risk professionals may be utilized).
APRA has identified eight such conglomerates, all of which are expected to have sufficient capital to meet the proposed capital standard without any significant actions required. Implementation date will depend on the final recommendations from the FSI.

Prudential developments – group supervision

In August 2014, APRA released its new conglomerate prudential standards applicable to groups comprising entities operating in more than one APRA-regulated industry and/or in one or more non-APRA-regulated sector. These groups are referred to as Level 3 groups and the Level 3 Framework has been designed to ensure that supervision adequately captures the risks to which the conglomerate is exposed that may not be captured under the existing framework.

APRA has identified eight such conglomerates, all of which are expected to have sufficient capital to meet the proposed capital standard without any significant actions required. Implementation date will depend on the final recommendations from the FSI.

Health insurance

There is an active health insurance market in Australia and these have previously been regulated by The Private Health Insurance Administration Council (PHIAC), rather than APRA.

The PHIAC’s new Capital Adequacy and Solvency Standards came into effect from 31 March 2014, which, it says, resulted in freeing up over $1 billion of regulatory capital. Changes were made to:

- Better address the key risks faced by health insurers
- Improve insurers’ engagement with those risks
- Improve the quality of information available to support PHIAC’s regulation of the industry

From 1 July 2015, the prudential regulation of health insurance will fall under the control of APRA, which could result in further harmonization with APRA’s suite of capital and risk management prudential standards.

Conduct of business and consumer protection

The FSI report made specific mention of consumer and conduct issues. Recommendations relevant to the Australian insurance sector include:

- Strengthening product issuer and distributor accountability
- Introduction of product intervention powers
- Facilitation of innovative disclosure
- Aligning interests of financial firms and consumers
- Raising the competency of financial advisors
- Improving guidance and disclosure in general insurance

The FSI noted that the conduct recommendations build on recent changes such as the Future of Financial Advice and product disclosure reforms. The recommendations promote market discipline and aim to reduce calls for future significant changes to the regulatory framework.
The China insurance sector has continued its remarkable growth momentum, with significant premium income growth in all of the non-life, life and health sectors. In August 2014, the State Council (China’s central government cabinet) announced a plan and ten macro policy measures to boost growth in the insurance sector, aiming to increase premium income to 5 percent of Gross Domestic Product (GDP) by 2020 (up from 3 percent in 2013). In response, the Chinese Insurance Regulatory Commission (CIRC) has accelerated its free up the front end, strengthen the back end regulatory reform agenda (i.e. liberate product pricing, investment and distribution restrictions, while shoring up solvency, governance and conduct), resulting in the rapid development of the China Risk Oriented Solvency System (C-ROSS), a new three-pillar risk and solvency framework.

Product developments include more innovative catastrophe insurance (where the first catastrophe insurance bond issuance is expected shortly) and mandatory catastrophe reserves for agriculture insurance (with a new mandatory agriculture insurance pool established in November 2014). In November 2014, the State Council issued an opinion to encourage development of the commercial health insurance market, with new regulations to grow existing critical illness insurance programs and tax incentives for other commercial health insurance expected to follow. Health insurance, along with marine insurance, is also an area of the Shanghai Free Trade Zone opportunity.

In order to promote the development of captive insurance companies, CIRC recently published its first regulation regarding the formation, parent company qualification, finance, and reinsurance of captive insurers. A new rule issued by CIRC in April 2014 has relaxed the funding and ownership requirements for insurance merger and acquisitions, although the foreign ownership limits in China continue to be:

- 50 percent for a life insurer
- 100 percent for a non-life insurer
- 24.99 percent for investment in a domestic insurer and
- 19.99 percent individual investment limit for an insurer to retain its designation as a domestic insurer.

In addition, the regulator has relaxed the control over outbound investment by the insurance sector, as part of the country’s overall going-out strategy. This has been showcased by the recent purchases of landmark real estate assets in global financial hubs (e.g., London and New York City) as well as the acquisition of European and American insurers by Chinese insurers.

Finally, in January 2014, the CIRC established the China Insurance Information Technology Management Company, Ltd. (CIITMC) to establish an industry-wide IT platform and data standards, centralize the collection and processing of insurance policy and claim data, and provide related value added services to the industry and consumers.

ICP compliance

The last FSAP assessment took place in 2011, which highlighted significant areas for development, which the CIRC has been moving to address, especially through its free up the front end, strengthen the back end regulatory reform agenda mentioned above.
Prudential developments

CIRC has adopted a rigorous consultation process for C-ROSS, which includes 15 research projects, 17 consultation papers and multiple industry quantitative impact studies (QIS). The main rules of the new solvency system were published in February 2015 and, simultaneously, the industry entered the transitional period (expected to be one year). Based on the latest QIS results, the new solvency capital regime should maintain the industry’s overall solvency level but will be more reflective of individual risk profiles and ERM program quality, which is considered essential to developing a healthy insurance sector.

More emphasis is being placed on Pillar 2 (qualitative measures) and Pillar 3 (market discipline mechanism) to tailor for the emerging insurance market conditions. In order to encourage the industry to enhance its ERM programs, the result of an insurer’s ERM quality assessment can impact the final minimum capital requirement. From a global context perspective, G-SIIs and IAIGs have also been considered in the C-ROSS regime, with additional capital requirements expected for both domestic and global systemic firms.

In order to curb certain aggressive market activities, the CIRC has also issued new rules governing insurance groups, the non-insurance business entities controlled by insurers, related party transactions, as well as the sales of short-term high cash value life products.

Conduct of business and consumer protection

Primary distribution

CIRC is imposing stricter qualification requirements for professional sales forces and is in the middle of an ambitious 3-year program to improve irregularities in the agency channel. The direct channels have maintained very strong growth momentum, particularly internet sales, which has recorded in excess of 100 percent per annum premium growth. A consultation concerning new regulations on internet distribution of approved life, accidental and health, property, and credit products is underway.

For bancassurance, a new regulation jointly issued by CIRC and the China Banking Regulatory Commission (CBRC) has encouraged sales of protection products and introduced consumer protection measures such as longer grace periods and more disclosure requirements on investment linked products sold to elderly and low income customers.

Product pricing

The de-tarification of motor insurance has regained momentum. More flexible pricing schemes that incorporate more effective rating variables but penalize excessive sales commission are scheduled to be piloted in six provinces in May 2015. Following the removal of the 2.5 percent pricing interest rate cap for traditional life products, more freedom to price participating, universal life, unit linked, and annuity products are expected shortly.

Consumer protection

The consumer agenda is high on CIRC’s priority list. In November 2014, CIRC issued new guidance to enhance insurance consumer protection. Specific measures on insurance product policy provisions, mis-selling, claims handling, consumer privacy and information protection, product disclosures, as well as enforcement have been introduced.
Currently there is no restriction on foreign ownership in Hong Kong which contributes to the dominant role played by foreign insurers in the market. In response to the high levels of competition and future expected growth in the market, a number of M&A activities have been observed in recent years and we continue to see new market entrants. Regulatory developments and the continued increase in cooperation between Hong Kong and mainland Chinese insurance authorities, most recently evidenced in the form of a cooperation agreement against cross-boundary insurance fraud, may also drive M&A activity in the future.

In December 2014, the Hong Kong government commenced public consultations on a voluntary health insurance scheme and a review of regulation of private healthcare facilities aimed at reducing the burden on the public healthcare system. The impact on the healthcare insurance market is not yet known, although many insurers have publicly indicated their support of the reforms.

After almost four years of public and industry consultation, 2014 saw the Insurance Companies (Amendment) Bill being gazetted and presented to the Legislative Council for first reading, marking a key milestone in insurance regulatory reform with the proposed establishment of an Independent Insurance Authority (IIA). The IIA will be responsible for regulating insurance companies and insurance intermediaries, including their financial stability and sales conduct. As a financially independent body, it will be in a stronger position to supervise and regulate the market. A number of the proposed changes set out below are dependent on the establishment of the IIA, which is targeted to take effect in 2016.

ICP compliance

In July 2014 the IMF published its FSAP assessment of Hong Kong. The report found a high level of observance of the ICPs where “Strong and robust supervisory practices compensate for many of the legal regulatory gaps...”
2014 saw a continued increase in regulation relating to the product design, internal approval, marketing literature and sales processes of investment linked products. "

noted by the assessors": The IMF were very supportive of a number of projects currently underway to target the existing gaps, namely plans for the IIA to be independent of government, the move towards a RBC framework for supervising solvency, the intention to formulate a regulatory regime for insurance groups, a move to direct supervision of intermediaries and legislative changes relating to conduct of business and corporate governance.

Prudential developments

The current solvency capital regime in Hong Kong is rules-based and the capital requirement is a simple calculation based on volume and size measures.

In September 2014, the Office of the Commissioner of Insurance (OCI) consulted on the framework for a RBC solvency regime aimed at aligning with the ICPs. The consultation paper set out the principles of a three pillar framework and introduced the concept of a group supervisory requirement for the Hong Kong market. The impact on required capital will not become clear until the second half of 2015 or 2016 when detailed rules are consulted on and impact studies undertaken.

The OCI has not disclosed a targeted effective date for the new regime. However given the need for extensive industry consultation and legislative changes, it is unlikely to take effect before 2019, with earlier implementation of risk management and corporate governance requirements and the relaxation of asset management rules possible.

Following the announcement in January 2012 of final proposals for the establishment of a Policyholder Protection Fund, the Government is currently drafting the enabling legislation before it can go through the legislative approval process.

Conduct of business and consumer protection

Insurance agents and brokers are the primary distribution channel for Hong Kong insurers, although bancassurance continues to grow as an alternative distribution strategy as insurers look to diversify away from agency business models.

Banks in Hong Kong are limited to being an insurance agency for a maximum of four insurance providers. Most leading banks in Hong Kong already have long-term insurance partners in place, meaning there is significant competition between insurers when new opportunities come to market, particularly where the bank offers exclusivity of distribution.

The sale of insurance products by banks is supervised by the Hong Kong Monetary Authority (HKMA). Certain products, most notably investment linked products, are subject to authorization by the Securities and Futures Commission (SFC) in terms of their offering documents, illustration documents and marketing materials.

2014 saw a continued increase in regulation relating to the product design, internal approval, marketing literature and sales processes of investment linked products with the OCI, HKMA and the SFC all issuing updated guidance for insurers and banks to follow. The tightening of regulation over the last two years, particularly around disclosing commissions, has led to a noticeable decrease in sales of such products, particularly through bancassurance channels. In December 2014, the HKMA issued a first circular in respect of sales practices for non-linked term insurance products with the OCI expected to issue guidance for insurers in 2015.
The Indian insurance market experienced a period of uncertainty after a new set of product regulations were introduced in 2013 for both unit-linked and non-linked insurance products. The insurance industry has taken some time to calibrate to the new set of guidelines.

A stable government at the centre has improved the sentiment in the stock market. The Reserve Bank of India (RBI) announced a cut in interest rate by 25 basis points on 15 January 2015. The RBI added that it could cut interest rates further should inflation continue to ease, while it would also monitor the government’s progress on fiscal consolidation.

Prudential developments

After months of political wrangling, India has finally passed its Insurance Laws (Amendment) Bill 2015, raising the foreign ownership limit in the sector to 49 percent.

Some of the key points of this Bill are:

- Increase in the composite cap of foreign investment (all forms of foreign investments including foreign portfolio investments) to 49 percent from the current 26 percent.
- Lloyd’s can establish a branch office for conducting reinsurance business in India. Once the eligible members of Lloyd’s satisfy the eligibility criteria specified by the Insurance Regulatory and Development Authority (IRDA), they may be allowed to operate their business through a Lloyd’s branch.
- ‘Health insurance business’ has been specifically included as a separate category in the definition of Indian insurance company. Capital requirement for health insurance companies is retained at USD16.67 million1 (INR1,000 million).
- IRDA has been advised to facilitate and frame adequate regulations to aid the entry of multinational insurance brokers so that they can provide an added impetus to the Indian insurance and re-insurance sector.
- Certain flexibilities have been extended to IRDA in order to better cater to changing dynamics within the insurance industry. Some of these are related to commissions paid and expenses incurred towards remuneration of agents and intermediaries, defining new insurance intermediaries, etc.
- Penalties for non-compliance with the provisions of Insurance Act and regulations have been enhanced, with an emphasis on minimising scope for subjective interpretation and suitable mode of appeals to the Securities Appellate Tribunal incorporated.

Conduct of business and consumer protection

RBI issued the final guidelines on 15 January 2015 enabling entry of banks into insurance broking. IRDA had issued IRDA (Licensing of Banks as Insurance Brokers) Regulations, 2013 in July 2013. Thereafter RBI had issued Draft Guidelines for public comments

1. Assuming 1 USD = INR 60
in November 2013 and after taking into account comments received from various stakeholders, RBI issued the final guidelines on this matter on 15 January 2015.

To date, the banks have been distributing the insurance products through corporate agency model and could only sell products of one life insurer and one general insurer whereas, under the broking model, banks can now sell products of multiple insurance companies.
Interest in the Indonesia insurance market has increased over recent years, but following the introduction of the new Insurance Law, which became effective on 17 October 2014, there has been a slowdown as more certainty is needed regarding the restrictions on foreign ownership. This new law is expected to bring significant changes to many areas of Indonesia’s insurance sector, with the Indonesian government being charged with clarifying a number of aspects in the implementation of government regulations, which should be issued within 30 months.

Key points of the new law are:

• Insurance companies must be owned by an Indonesian citizen and/or Indonesian legal entity or Indonesian citizen and/or Indonesian legal entity together with foreign citizen or foreign legal entity with an insurance background. Foreigners and a foreign entity can only own an insurance company through the Indonesia capital market/stock exchange.

• The Government must establish a policyholder protection fund within three years, and all insurance companies must become a member of the new policyholder protection scheme.

• A sharia business unit of an insurance company should be disposed of as a separate sharia insurance/reinsurance entity within ten years after the new insurance law becoming effective, or when the Tabarru’ fund and the unit holders’ investments reach 50 percent of the total of insurance funds, Tabarru’ fund and the investments of the insurance company.

ICP compliance

Indonesia is not one of the mandated countries for FSAP review against the new ICPs.

Prudential developments

In addition to the changes in the legal framework outlined above, the Indonesia Financial Services Authority (OJK) has issued a series of new regulations in 2014 governing insurers in Indonesia. The most significant in terms of compliance effort required are set out below:

Good corporate governance

The new Good Corporate Governance regulation was issued in April 2014 with a six-month transition period. The new requirements include the appointment of a compliance director, independent
commissioners and sharia supervisory board members, as well as the need for regular self-assessment of good corporate governance practice.

**Enterprise Risk Management**

In August 2014, OJK issued a new regulation that is similar to the requirement for ERM in other jurisdictions. It requires insurers to perform a self-assessment of own risk (which includes strategic, operational, assets and liabilities, management, governance, funding and insurance risks). The insurance supervisor is also required to conduct risk-based supervision based on these regulations. The first self-assessment occurred at the end of February 2015 for the 2014 year-end position.

**Conduct of business and consumer protection**

The OJK has issued a regulation concerning Alternative Dispute Settlement Institutions in the Financial Services Sector and two circular letters in relation to consumer protection in the financial services sector. These regulations became effective in August 2014, with the aim to establish a fast, low-cost and fair scheme of dispute settlement in the financial services sector.
In recent years, the JFSA has continued to improve its supervisory approach taking examples from other regulators globally. Both the Supervisory Department and Inspection Department are working together to integrate their on-site and off-site monitoring process. Their current approach has focused on discussions with financial institutions about best practices and collection of information, rather than detailed inspections.

One of the most significant business changes of the year was the revision in May 2014 to the Japanese Insurance Business Law to facilitate the ownership by Japanese insurance companies of foreign financial institutions. Japanese insurance companies are not permitted to own subsidiary companies whose activities fall outside the following categories:

- Financial business
- Dependent business (business which is peripheral but essential to insurance operations, such as investments, advertising, employee welfare with the main customers being the insurance companies themselves)
- Venture business and companies under reorganization and rehabilitation
- Holding companies for the above type of businesses.

An exception has existed for some time in respect of the acquisition of foreign insurance companies where the target owns other business that do not feature on the list above. This enables acquisition, provided all non permitted business are disposed of within five years from the date of acquisition. The revision to the law now applies the same exception to both foreign non-insurance financial institutions and non-insurance financial companies. This will make it much easier for Japanese insurance companies to acquire foreign businesses.

On a regulatory angle, the regulator, the Japan Financial Services Agency (JFSA), has announced their new 2014-2015 financial monitoring policy for financial institutions. Specifically for insurance companies, there are now four areas of focus (three last year) - the development of an adequate claims payment framework, enhancement of improved risk management, enhancement of customer protection and convenience and, new this year, the enhancement of governance.

In recent years, the JFSA has continued to improve its supervisory approach taking examples from other regulators globally. Both the Supervisory Department and Inspection Department are working together to integrate their on-site and off-site monitoring process. Their current approach has focused on discussions with financial institutions about best practices and collection of information, rather than detailed inspections.

ICP compliance

Japan was one of the first FSAP reviews undertaken against the new ICPs. A number of recommendations were made relating to the JFSA's ongoing work to strengthen its insurance regulatory framework. Since that time, further improvements regarding ICP compliance have taken place.

Prudential developments

Japan has implemented a RBC-based solvency regime, both on a stand-alone and group basis with the risk amount calculated on a factor-based approach.

In February 2014, the JFSA enhanced areas around integrated risk management, including ORSA, in their Inspection Manual/Supervisory Guidelines with insurance companies to comply with the ICPs. It has
The JFSA is also in the process of developing a new economic-based solvency regime and is now reviewing the field testing results from the exercise conducted in 2014. Results will be published in May 2015.

Conduct of business and consumer protection

As part of the JFSA’s focus on customer protection in its monitoring policy, in May 2014, the JFSA revised the rules around the conduct of sales of insurance products in the Japanese Insurance Business Law. The revision requires that insurance companies and sales agencies:

- Ascertain customers’ needs and purpose
- Propose appropriate insurance products that meet the customers’ needs and purpose
- Provide adequate information to allow the customers to make an informed decision regarding their purchase.

In addition, the JFSA now requires sales agencies to develop an adequate governance framework in relation to the sale of insurance products, in line with insurance companies.

The JFSA also revised the Supervisory Guidelines in January 2014 to clarify the definition of what constitutes an employee of an insurance agency. According to the revised Supervisory Guidelines, employees are defined as those who are directly employed by insurance agencies and conduct sales of insurance products under their direct supervision. As a result, outsourced sales personnel can no longer conduct sales of insurance products.
Korea

According to the OECD Insurance Statistics 2013, Korea is the world’s sixth largest insurance market by premium income, with the third highest level of insurance penetration (13.7 percent from the same report).

Supervision of the insurance industry in Korea is the responsibility of the Financial Services Commission (FSC) and the Financial Supervisory Service (FSS). The FSC delegates inspection and supervision activities to the FSS.

In response to the low interest rate environment, insurance companies have amended their investment portfolios to move into alternative investments. The FSS responded by easing investment restrictions and lowering risk factors for some classes of investments in the RBC calculation.

ICP compliance

The FSAP review report was published in May 2014 and was based on the regulatory framework in place in April 2013. This reported a high level of observance of the ICPs and a regulatory structure which, although complex, is well developed compared to international norms. A particular area highlighted for further development relates to group requirements. A number of the larger groups are becoming more international, so group measures need to be developed. Shortcomings were noted in the use of historic costs in the valuation area, weak controls on investments, the lack of a group capital requirement, and the need to better identify emerging risks.

Prudential developments

During 2014, the FSS enhanced its RBC standard, applying a higher confidence level, elaborating a risk coefficient and reflecting longevity risk. The FSS has also been encouraging insurers to develop their own risk evaluation model (internal model) rather than simply using the standard model provided. There are also plans to improve the Liability Adequacy Test system to meet international standards prior to implementation of the revised insurance contracts accounting standard.

To supplement current risk related regulation, FSS is focusing on the internal processes of risk management, rather than the risk factors themselves, including risk management structures and reporting hierarchy, risk management processes, and recovery and resolution plans. The FSS is also considering implementing an ORSA requirement by 2017.

Conduct of business and consumer protection

The disclosure of personal information from financial institutions has been an issue in Korea recently. The FSS has responded by increasing the penalty and forcing insurance companies and other financial institutions to organize prevention structures and processes.
Malaysia

The life insurance industry remains dominated by foreign providers, while domestic firms control the general insurance industry. In 2009, foreign ownership limits were raised from 49 percent to 70 percent for branches of foreign insurance companies. Foreign equity above 70 percent is considered on a case-by-case basis. Malaysia has a strong takaful insurance market.

The agency channel is the dominant distribution channel, while bancassurance and direct sales have grown in popularity since the removal of restrictions around entering into such arrangements. The recently enacted Financial Services Act and Islamic Financial Services Act have prohibited several business practices – for example composite licenses are no longer allowed. These acts may also have an impact on future overseas activity, for example requirements on minimum surplus of assets over liabilities for foreign branches and other prudential rules.

ICP compliance

The IMF conducted its FSAP of Malaysia in 2013, with the level of observation of the ICPs found to be good. Deficiencies related to the formalization of expectations into current guidelines, clarifying approaches in certain areas, enhancing transparency, and expanding the regulatory toolkit. Pending legislation was seen to be addressing risk management and group supervision issues.

Prudential developments

Malaysia has operated an RBC framework since 2009. Traditional insurers have to maintain a capital adequacy ratio above the Supervisory Target Capital Level (STCL) of 130 percent. Takaful operators also need to follow this capital requirement with the same STCL.

Conduct of business and consumer protection

There have been two significant developments in the conduct arena during 2014. Firstly, in February 2014, the Bank Negara Malaysia (BNM) announced the results of its consultation on a concept paper on Life Insurance and Family Takaful Framework (LIFE Framework) and plans to move away from the tariff-based regime in the general insurance industry towards a free market system in 2016.

An important aim of the Life Framework was to enable further diversification in insurance delivery channels as a way to improve the quality of advice, enhance choice and value for consumers and increase the insurance and takaful penetration rate from the current 54 percent to 75 percent by 2020. The initiatives proposed in the framework include partial removal of operating cost limits, diversification of distribution
Motor tariff rates are regulated by BNM, although they have not been revised for more than 30 years, resulting in loss ratios in the order of 200-300 percent. These tariffs are being revised over a period of four years (2012 to 2015), with a view to insurers being able to set their own premium rates, differentiated in accordance to the perceived risk profile in 2016. 

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The general and life insurance markets continue to be dominated by a small number of insurers, with the top five insurers in each sector accounting for approximately 75 percent to 80 percent of the market. Authorization to conduct insurance business is required from the Reserve Bank of New Zealand (RBNZ).

ICP compliance

New Zealand’s solvency standards were introduced in 2011, and were developed having regard to other countries solvency standards and IAIS guidance. As such these standards are still relatively new, and whilst, there have been a number of refinements, as discussed below, there are no immediate plans to change the current solvency regime. New Zealand is not one of the mandated countries for FSAP review against the new ICPs.

Prudential developments

The RBNZ’s focus has turned to supervision and on-going monitoring and compliance, as was evidenced by the number of policy initiatives released during 2014.

In 2014, the RBNZ consulted with the industry on a variety of matters pertaining to solvency, including the treatment of Guarantees and Financial Reinsurance for Life Insurance Business. These consultation papers culminated in the release of a revised suite of Solvency Standards in December 2014. The revised Standards came into effect on 1 January 2015, except for certain provisions relating to reinsurance. Insurers will be required to calculate their solvency margin under the revised Solvency Standards from their 2015 balance sheet date.

At present, there is little publicly available information regarding insurers’ financial performance, and what is available, is not readily comparable. The RBNZ proposes to amend this by collecting insurer data on a quarterly basis in the form of a Quarterly Insurer Survey. Per the RBNZ’s December 2014 Insurance Industry Update, under the implementation timeline, voluntary practice submissions were due to commence in February 2015, followed by compulsory submissions in May 2015. However in the RBNZ update released on 12 March 2015, we note that the RBNZ has extended the period for practice submissions through to 5 June 2015, with formal reporting to commence for periods ended 30 September 2015. In due course, we understand that the RBNZ intend to publish industry data in summary form.

In the second half of 2014, the RBNZ undertook a thematic review of risk governance across 17 licensed insurers. This review was completed by 31 December, 2014, with the 17 licensed insurers being issued with individual feedback letters. Subsequent to this, the RBNZ made the review findings publicly available in their report entitled, “Review of findings on the quality of the risk governance of insurers” released on 9 March 2015. Overall, the RBNZ note that whilst risk governance is still a work in progress, they are pleased with the quality of risk governance amongst the insurers sampled, confirming that their reliance on self-discipline has, to date, been generally well placed.

Conduct of business and consumer protection

The regulatory focus on conduct risk has focused on the banking sector, which has seen considerable law reform. To date, there has been little such development in the insurance sector, which as yet has no single clear piece of legislation which addresses conduct matters. This means that although the conduct concept is widely understood, it is challenging to pin down from a compliance perspective.
Singapore has a very well developed insurance sector and, with no restrictions on foreign ownership, many overseas groups are represented. The likely creation of the ASEAN Economic Community (AEC) in 2015 is expected to provide opportunities within the financial services sector as a whole. The liberalization in the movement of goods and services in the ASEAN regions could promote greater flow of business activities and investments and naturally, a greater demand for insurance services in the region. In addition, the AEC also aims to progressively liberalize and substantially remove restrictions in the ASEAN regions financial services sector by 31 December 2020. This could lead to an influx of more foreign players into the region, increasing competitive pressure, resulting in smaller insurers being forced to merge with others or close down. Multi-national insurers with their financial strength and expertise would have the opportunity to benefit from a more integrated market.

The Monetary Authority of Singapore (MAS) is a fore-runner of regulatory change in the ASPAC region and adopts a consultative approach. Several consultation papers on a wide range of regulatory issues have been issued in recent years and have now been brought into law.

ICP compliance

Since the last FSAP on Singapore in 2013, which found the level of observation of the ICPs to be very high, further improvements were made in 2014 in the areas of public disclosures, conduct, technology risk management, outsourcing, ERM and ORSA.

Prudential developments

In 2014, MAS issued details of its new enhanced risk based capital regulatory calculations (RBC 2). This paper included a number of new proposals, particularly in the areas of calibration of required capital, alignment of available capital components with those in MAS’ capital adequacy framework for banks, two capital requirements and introduction of a matching adjustment for life business. A full scope QIS exercise was conducted to fully understand the impact of RBC 2 as part of the consultation. We expect MAS to conduct further QISs before finalising these proposals.

Under the RBC 2 proposals, insurers will be required to hold sufficient financial resources to meet the total risk requirements which correspond to a VaR of 99.5 percent confidence level over a one-year period as the higher supervisory intervention level (the PCR). The lower MCR supervisory intervention level will be set at a VaR
of 90 percent confidence level over a one-year period. This will provide greater clarity to insurers on MAS’ expectations on the type of corrective actions required, and the urgency with which they should be taken when either of these levels is breached. The MAS also continues to require all insurers to perform a series of prescribed stress tests on an annual basis to determine the robustness of their capital positions.

In addition, enhanced ERM standards came into force on 1 January 2014 and the largest insurers in Singapore submitted their first ORSA reports to the MAS before the end of 2014 – the smaller insurers are due to follow and submit their ORSA reports before the end of 2015.

Conduct of business and consumer protection

Agents and brokers continue to dominate the insurance distribution channels in Singapore, although bancassurance and direct/online sales are becoming increasingly utilized.

On 2 October 2014, the MAS released a consultation paper on legislative amendments to the Financial Advisors Act and Insurance Act to implement the policy proposals under the Financial Advisory Industry Review. The proposals aim to raise the standards and professionalism of the financial advisory industry, increase compliance checks, adjust agent remuneration structures and encourage greater efficiency in the distribution of life insurance and investment products through an aggregator website. The key legislative changes included:

- Higher continuing professional development training for financial advisors
- More stringent conditions on licensed financial advisory firms
- New minimum base capital requirements for advisor firms
- Introducing a balanced scorecard framework for remuneration of financial advisors
- Measures aimed at lowering costs for consumers, for example through the level of disclosure on aggregator websites and offering a class of life insurance products to be sold directly to consumers without commissions.

The Personal Data Protection Act 2012 (PDPA) came into effect in 2014, with its provisions all in force by 2 July 2014. This has prompted systems changes in distribution functions. The PDPA establishes a data protection law that comprises various rules governing the collection, use, disclosure and care of personal data. It recognizes both the rights of individuals to protect their personal data, including rights of access and correction, and the needs of organizations to collect, use or disclose personal data for legitimate and reasonable purposes. The Life Insurance Association is in the process of developing a Code of Practice for Life Insurers and a Code of Conduct for Tied Agents of Life Insurers on the PDPA.
The Taiwanese market has seen the local regulator, the Financial Supervisory Commission (FSC) push for the “Insurance Industry Competitiveness Program” which comprises the following key initiatives expanding business and improving business efficiency (such as encouraging the development of micro insurance to protect disadvantaged groups):

- Responding to the needs of an aging society (such as encouraging investment in pension insurance funds and the care industry)
- Improvements to more appropriately respond to the regulation of internet sales:
  - Improving the effectiveness of financial funds (such as allowing a wider range of funds to enhance the rate of return and differential pricing rates allowed by guaranty funds to encourage capital strengthening)
  - Stronger role in the Asian Market (such as the development of an international insurance business market and relaxation of regulations to encourage foreign mergers and acquisitions)
- Innovation of new products (such as natural disasters and parametric weather insurance).

ICP compliance

In specific relation to ICP 16, Insurance companies in Taiwan are encouraged to develop the quantitative techniques of Economic Capital (EC) and an Own Risk and Solvency Assessment (ORSA) to enhance their capital management according to “Insurance ERM Practice Manual”. However, the timetable for introduction of the EC/ORSA regime in Taiwan is still uncertain.

Prudential developments

Due to the “Insurance Industry Competitiveness Program” performed by the FSC, there are several significant developments:

- Enhanced business performance through differential management
  - On 16 January 2015, the third reading of the Insurance Act amendments occurred which updates the immediate corrective action mechanism, covering insurance capital adequacy and breach consequences allowing the Insurance Commissioner more powers to effectively deal with possible insolvencies.
- Development of an international insurance business market
  - The third reading of the “Offshore Banking Act” commenced allowing the insurance industry to establish international insurance subsidiaries in the territory of the Republic of China.
- Allow a wider range of funds to enhance the rate of investment return
  - Amended Regulations Governing Foreign Investments by Insurance Companies has been introduced
to enhance the efficiency of the insurance industry’s use of funds and to encourage the insurance industry to develop related insurance products.

– Amendments to the “Regulations Governing Derivatives Transactions Conducted by Insurance Companies” were also introduced aimed at enhancing the effectiveness of the insurance industry to engage in derivatives transactions.

Regarding solvency capital, due to the legacy negative interest spread issue in Taiwan, the Actuarial Institute of The Republic Of China requested all life insurers to calculate the fair value of in-force liabilities at the end of September every year on the basis of the IFRS 4 Phase II exposure draft. Furthermore, all life insurers are required to submit a report to show if the insurance liabilities booked are sufficient.

Conduct of business and consumer protection

The bancassurance channels have become the primary mode of distribution in recent years.

The third reading through the Legislative Yuan “Financial Consumer Protection Act” amendment on 16 January 2015, sets out violations against the financial interests of consumers and grants the competent authorities power to adopt a warning to stop the sale of goods and to stop businesses trading. They can also impose fines and/or revoke licences.
It is generally acknowledged that strengthening and consolidation of the insurance market is needed, particularly within the non-life sector. The regulatory focus over the last five years has been on introducing and developing the risk based capital regime, enhancing the qualifications required to operate in the market and encouraging the implementation of effective corporate governance frameworks.

The Office of Insurance Commission (OIC) is currently in the process of finalising its 3rd Insurance Development Plan covering the strategic objectives for the period from 2015 through to 2020. The overall aim is to strengthen and build confidence in the Thai insurance market in preparation for the liberalization under the World Trade Organization and the ASEAN Economic Community.

1. Enhance the overall industry standard and enforce corporate governance
   - Raise the qualifications to operate as an insurer such as increasing the minimum capital levels, more stringent ‘fit and proper’ qualifications and increased foreign ownership participation.
   - Enhancing corporate governance and transparency of disclosure.

2. Improving insurers’ efficiency and promoting a competitive environment
   - Enable the industry to operate more competitively which would involve, amongst other things, allowing the introduction of innovative products and de-tariffication.

3. Establishing a new image for the insurance industry through providing awareness and attracting talent
   - Improve the public profile of the industry so that the benefits of insurance are better understood as well as attract better talent.

ICP compliance

Thailand is not one of the mandated countries for FSAP review against the new ICPs, however, the OIC performs an annual self-assessment against the ICPs and they have undertaken a number of recent initiatives to improve compliance specifically in the following areas:

- Enhancing the Supervisory Review and Reporting Process for both onsite and offsite monitoring
- Undertaking a review to enhance the risk based capital regime and
- The development of stress testing frameworks.

Prudential developments – Regulatory capital

The OIC continues to review the Risk Based Capital Regime that was introduced in September 2011. The objective of the review was multifaceted covering the following:

- Update of the risk charge parameters
- Addressing certain gaps in the original regulations
- Considering the feasibility of introducing risk charges for operational, catastrophe and mass surrender
Increasing the overall confidence level of the framework from the original 95 percent VaR.

Market testing was performed in mid-2014 and the results are still under review by the OIC and the industry. One of the key discussion points is the level of confidence that will be applied. At this time, no implementation date have been announced, but it is possible that the requirements may be implemented piecemeal.

Simultaneously, the OIC has been working with the industry to implement stress testing frameworks for both the life and non-life industry. Quantitative assessments have been performed and are under review.

Prudential developments – risk management and governance

During 2014, the OIC issued a number of guidelines and regulations to improve the overall control environment and corporate governance of insurers. The most significant points were:

- The requirement to establish an Audit Committee with two independent directors
- Internal audit are required to report directly to the Audit Committee;
- A compliance department is required to be set up which reports either to the Board or the Audit Committee
- Processes, procedures and controls are required to be established over the receipt and payment of cash
- Guidelines were issued over independence requirements of directors, formation of risk committee, investment committee, nomination committee and remuneration committee.

These regulations and notifications served to provide, enforce and guide previous guidelines issued by the OIC.

Conduct of business and consumer protection

The discussion on deregulation of pricing is still ongoing between the OIC and the industry. However there is currently no consensus on a timeframe or the extent to which pricing, commission and the product approval process will be liberalized.

The strengthening of the regulations over bancassurance marketing/selling practices in 2013 has not had a significant impact on growth.

Health insurance

Whilst it is possible to apply for just a health insurance license, most insurers do not specialize in the segment. Awareness of the need for health coverage is growing and similarly, as the population is aging we have seen some life insurers offer annuities however the overall premium is low.

Prudential developments – minimum capital requirements

In late 2014, the OIC announced its intention to increase the current minimum capital levels as follows:

- Life: from Baht 50 million to Baht 500 million over 3 years and to Baht 1 billion over 5 years
- Non-life: from Baht 30 million to Baht 300 million over 3 years and to Baht 500m over 5 years
- Health: from Baht 30m to Baht 100 million over 3 years.

The legislation and timing of the implementation of the regulation is not yet known, however, this will likely have a significant impact on the non-life market since many of the smaller companies are family owned.

The strengthening of the regulations over bancassurance marketing/selling practices in 2013 has not had a significant impact on growth.

Health insurance

Whilst it is possible to apply for just a health insurance license, most insurers do not specialize in the segment. Awareness of the need for health coverage is growing and similarly, as the population is aging we have seen some life insurers offer annuities however the overall premium is low.

The strengthening of the regulations over bancassurance marketing/selling practices in 2013 has not had a significant impact on growth.

Health insurance

Whilst it is possible to apply for just a health insurance license, most insurers do not specialize in the segment. Awareness of the need for health coverage is growing and similarly, as the population is aging we have seen some life insurers offer annuities however the overall premium is low.
In response to the decreasing trend of lower market interest rates, the Ministry of Finance (MOF) revised the calculation basis of valuation interest rate applicable to life insurance companies in December 2014 and this revised calculation basis will be applied from February 2015.

2014 saw good growth in the insurance sector, which is expected to continue in the coming years due to the current low market penetration and GDP growth in Vietnam.

In response to the decreasing trend of lower market interest rates, the Ministry of Finance (MOF) revised the calculation basis of valuation interest rate applicable to life insurance companies in December 2014 and this revised calculation basis will be applied from February 2015.

In the long-term, the insurance sector will be restructured, with aims to consolidate the operations of weak and inefficient insurance companies and to improve corporate governance standards in line with international practices in three key areas: capital adequacy, risk management and information transparency.

ICP compliance

Vietnam is not one of the mandated countries for FSAP review against the new ICPs.

Prudential developments

The current capital regime in Vietnam is rule-based with requirements of minimum capital levels for each type of business (life insurance, non-life insurance, health insurance and reinsurance) and minimum levels of solvency margin, using a simple calculation methodology.

In December 2014, the MOF issued a Circular providing guidance on assessment and rating of insurance companies. Based on the results of supervision ratios/indicators, insurance companies are classified into different groups and appropriate measures are taken based on the rating result for each group.

Conduct of business and Consumer protection

Agency is still the main distribution channel in Vietnam; however, a number of initiatives on alternative distribution channels (including on-line and bancassurance) have been launched/focused on by insurance companies.

In 2014, the MOF issued a Circular regulating the bancassurance activities which are both supervised by the State Bank of Vietnam (banks) and the MOF (insurance companies). This Circular has specific training requirements for banking staff involved in bancassurance activities to avoid mis-selling insurance products to customers.
REGULATORY DEVELOPMENTS IN EMA REGION
(INCLUDING CENTRAL AND EASTERN EUROPE, MIDDLE EAST AND AFRICA)

We are now in the final year before Europe’s insurance industry has to comply with Solvency II. Given its influence on the evolution of regulatory regimes across the globe, we start this year’s review by looking at the regulatory developments in Europe.
It would be hard these days to find someone who is unaware of the major revamp of insurance prudential regulation that is taking place in Europe. Solvency II will replace 14 existing directives (commonly referred to as Solvency I) with a new risk based set of prudential requirements, which will for the first time mean a single harmonized, robust prudential framework applying to all but the very smallest European insurance firms.

Prudential developments - Solvency II

While some observers have thought Solvency II has been a long and arduous journey, there can be no remaining doubt that the 1 January 2016 implementation date will be met. The final directive has been approved for some time, and Member States had a deadline of 31 March 2015 to transpose these requirements into their local regulatory regime. On 18 January 2015, the level 2 delegated acts (officially now the Commission Delegated Regulation 2015/35) also entered into force. As these are made as regulations, not as a directive, they apply throughout the Member States automatically without the need to be transposed.

The remaining aspects that complete the Solvency II package are the implementing technical standards (ITS) and guidelines and equivalence decisions.

Implementing technical standards

The ITS are prepared by EIOPA and approved by the European Commission. These cover purely technical matters and are legally binding once approved. EIOPA sent the first wave of ITS (which related to various approvals processes that will be required from 1 April 2015) to the Commission on 31 October 2014 and the Commission made these as Commission Implementing Regulations on 19 and 24 March 2015.

Consultation on the second and final wave of ITS closed on 3 December 2014, with responses due by 2 March 2015. EIOPA aims to send these to the European Commission on 30 June 2015 with a view to approval being provided by 30 September 2015, which is considerably shorter than the first wave process took.

Guidelines

The guidelines are prepared by EIOPA and require no further approval. Unlike the ITS, the guidelines operate on a so-called ‘comply or explain basis’. This means they are issued to national supervisory authorities who must then make every effort to comply with the guidelines, but where they are unable to do so, they must explain the reason for non-compliance to EIOPA. The national authorities have two months from the issuance of the guidelines in final form to confirm their intentions regarding compliance. Once the national authority has confirmed its intention to comply, insurance companies in their jurisdiction will be required to comply with their implementation of the guidelines to the extent they are applicable to them.

This ‘comply or explain’ approach could result in some divergence in limited aspects of the regime. However, the experience from the preparatory phase guidelines suggests that there will be a high level of compliance. For those guidelines, there was an overall compliance rate of 93 percent, with over 90 percent of the guidelines in each paper complied with by all authorities.
The first set of guidelines (which mainly related to the quantitative requirements) was finalized by EIOPA on 27 November 2014 and the ‘comply or explain’ period opened with the publication of the translated versions on 2 February 2015. At the time of writing, the national competent authorities are in the process of confirming their extent of compliance with these guidelines. Early indications are that compliance will be at a very high level.

Consultation on the second wave of guidelines ended on 2 March 2015. EIOPA are aiming to publish the final guidelines in July 2015 to allow sufficient time for national authorities to have completed their ‘comply or explain’ assessment before Solvency II goes live. A decision regarding audit requirements in relation to disclosures is still awaited, but otherwise this will complete the Solvency II package with the exception of the final equivalence decisions (see below).

2014/15 requirements

Reference was made above to preparatory phase guidelines. These relate to the period from 1 January 2014 to 31 December 2015 and we covered these in last year’s edition of this publication. Across Europe, significant amounts of work have been undertaken by both the insurance industry and their regulators to meet these requirements.

The first Own Risk and Solvency Assessment (ORSA)-style reports (which for the preparatory phase are named Forward Looking Assessment of Own Risks (FLAOR)) were submitted in 2014 and a second filing will be required in 2015. This exercise has provided insurers with much greater awareness of the level of effort involved in producing such reports, with many Boards stating that they found the exercise useful. As well as providing greater depth of understanding about their risk profiles, the exercise has in many cases highlighted key areas of development for 2015 (such as enhancing stress and scenario testing and projection of capital). A common message coming back from the initial reviews by a number of supervisory authorities, is that insurers need to bear in mind that the intended audience for the report should be the Board and not the regulator, so it must address the Board’s needs first and foremost.

More importantly, the requirement to submit extracts of the quantitative reporting templates (QRT) and narrative reports that will be required under Solvency II gave a much needed push to insurers’ pillar 3 efforts. Although some European countries have moved ahead of the preparatory phase requirements, the first reporting required relates to the financial year ended on or after 31 December 2014, where submission to the local supervisors is required within 22 weeks for solo information and 28 weeks for group information. Quarterly filings are also required in respect of the quarter ended 30 September 2015 within 8 weeks for solo information and 14 weeks for group information. Significant work has been undertaken by insurers to ensure that they have the necessary information to produce the required QRT and narrative reports, although the latter has generally received less attention than the former.

Pillar 3 reporting in the preparatory phase is an area where there is divergence of supervisory approaches, with a number of national authorities requiring some form of auditor assurance, at least in respect of the Solvency II balance sheet. For example, the Belgium regulator requires a report from the auditors of factual findings on whether the quantitative and narrative information has been reported in accordance with EIOPA guidelines and the UK regulator has put in place a two step process to firstly consider whether a firm’s basis of preparation complies with the Solvency II framework as it currently stands and then an audit opinion on whether the completion of a subset of the QRT required in the preparatory phase comply with that basis of preparation.
Internal models

A survey undertaken by Solvency II Wire in November 2014 revealed that there are around 175 applications across Europe to permit insurers to use their own internal model to calculate the solvency capital requirement instead of applying the standard formula approach. The UK leads the way with around 45 applications.

On 4 December 2014, EIOPA released a Common Application Package for Internal Models, aimed at ensuring consistency in the supervisory approval process across Member States.

Equivalence

Equivalence relates to the recognition of non-European insurance prudential regulatory regimes within the Solvency II regime. There are three affected areas:

- The treatment of reinsurance contracts placed with non-European reinsurers
- Enabling an insurance company that is subject to that regulatory regime to be included within the group solvency calculation on a local regulatory basis (provided approval is also granted for it to be aggregated on a solo basis, rather than included as part of the consolidated group)
- Reliance on the group supervision performed under equivalent group requirements.

On 30 January 2014, EIOPA issued its final advice to the European Commission regarding the equivalence status of Bermuda, Switzerland and Japan (reinsurance only). These were the only countries that originally requested equivalence assessments and significant effort has been spent in amending local regulatory requirements, where potentially non-equivalent outcomes may have otherwise been observed, to bring them up to Solvency II standard. EIOPA’s opinions can be summarized as follows:

Table 1: EIOPA recommendations regarding equivalence status

<table>
<thead>
<tr>
<th></th>
<th>Reinsurance</th>
<th>Solo insurer</th>
<th>Group requirements</th>
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<tbody>
<tr>
<td>Switzerland</td>
<td>Equivalent once amendment to the disclosure regime is implemented</td>
<td>Equivalent</td>
<td>Equivalent once amendment to the disclosure regime is implemented</td>
</tr>
<tr>
<td>Bermuda (insurers classified as Classes 3A, 3B, 4, C, D and E only)</td>
<td>Largely equivalent, but a number of caveats (see below) for certain classes especially long term insurance.</td>
<td></td>
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<tr>
<td>Japan</td>
<td>Largely equivalent – the most significant concern relates to technical provisions although (as noted in the Japan section of this paper) development of a new economic-based solvency regime is in progress which EIOPA believes should address this concern.</td>
<td>Not applicable</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

Source: KPMG International 2015.
There are several areas in the Bermuda report which have been assessed as partially equivalent and for some classes of insurer these will not be resolved before Solvency II goes live, in spite of recent changes by the Bermuda Monetary Authority. The most significant caveats relate to:

- The solvency regime (all classes) due to the recognition of multiple valuation bases. This is expected to be addressed when a proposed revision of the valuation standards is implemented (1 January 2016 for classes 3B/4; 1 January 2017 for class 3A; and 1 January 2018 for life)
- Valuation standards for life insurers – material uncertainties remain around the framework being developed
- Lack of financial statements for Class C/D insurers
- Lack of provisions requiring Class C/D insurers to maintain available statutory capital and surplus that equals or exceeds the minimum solvency margin – expected to be in place by the end of 2015
- Public disclosure, where current regulation and plans for public disclosure are less extensive than Solvency II. There are currently no public disclosure requirements applicable to Class 3A or life insurers; for Classes 3B, 4 and groups, there is a wide range of exemptions possible.

At the time this document went to print, the Commission had not released its equivalence decisions. From these papers, Switzerland appears best placed to gain full equivalence status, and it remains to be seen how the Commission will view the caveats in the Bermuda and Japan reports. Even if it were to decide that it was unable to grant full equivalence, including for all classes of Bermuda entities for which equivalence was sought, in our view the reports demonstrate sufficient progress to enable these regimes to qualify for temporary/provisional equivalence.

In terms of the transitional arrangements, during 2014 EIOPA worked on the assessment of the supervisory regimes of Australia, Brazil, Chile, China, Hong Kong, Israel, Mexico, Singapore and South Africa, as well as determining how it should assess the Canadian regime for provisional equivalence (which is only relevant to the inclusion of non-European insurers within the group solvency assessment), given this does not require supervisory co-operation. The European Commission has indicated that it will introduce delegated acts on provisional equivalence in April 2015 and temporary equivalence in September.

**Conduct of business regulation**

Consumer protection must address two key needs:

- Sound management, robust governance and robust solvency position (Solvency II)
- Appropriate information for customers on the conditions, costs and risks of the products they buy, ensuring they are treated fairly and receive value/service for money.

Work in the second of these areas mainly revolves around the recast Insurance Mediation Directive, now named Insurance Distribution Directive (IDD) and the Regulation on Product Information Documents for packaged retail and insurance-based investment products (PRIIPs). During 2014, progress was made in both these areas with the PRIIPs directive finalized in November and published in the Official Journal on 9 December.

Progress on IDD has been slower, with 2014 seeing a number of redrafts, but no final directive. In the meantime,
the adoption of the recast Markets in Financial Instruments Directive (MiFID2) has meant changes need to be introduced into the existing IMD relating to the identification, prevention, management and disclosure of conflicts of interest.

EIOPA issued its consultation paper on 1 October 2014, largely replicating the requirements established in the MiFID Implementing Directive, although noting that it may need to develop further guidelines at a later date to ensure consistent application across Member States. It sent its final recommendations to the Commission on 4 February 2015. Key recommendations are that both insurance intermediaries and insurance undertakings:

- Identify potential conflicts of interest arising in the course of insurance distribution activities, with minimum criteria proposed
- Establish a conflicts of interest policy that is appropriate to the nature, scale and complexity of their business. This must specify procedures to be followed and procedures adopted in order to manage such conflicts. The policy must be reviewed on at least an annual basis.

Although the IDD will permit disclosure to customers where conflicts of interest cannot be sufficiently managed to ensure that customer detriment cannot arise, the paper emphasizes that this should be seen as “a step of last resort”.

Currently, there is no harmonized approach in this area across Member States, so the proposals will have differing impacts across the European Union countries, and some countries have moved to introduce elements of the requirements early. A key consideration for some countries will be the requirement to remove any direct link between the remuneration of one party and the revenues of another party where this could permit conflicts of interest. Although EIOPA emphasizes that they do not intend to prohibit commission-based distribution models, this may necessitate a review of current arrangements ahead of the IDD proposals.

To supplement the work underway on the Key Information Document for PRIIPs, consumer testing will be undertaken to assess whether this will provide helpful information. EIOPA also intends to develop a set of key risk indicators to facilitate risk-based supervision of conduct of business.

However, equally if not more importantly are a firm’s culture and strategy, which is discussed in a separate section of this publication.

In other developments, in December 2014 EIOPA produced its third consumer trends report, based on information gathered from national supervisors. The following main trends were identified, although these did not exist in all Member States. A number of these should be addressed by IDD, but others could result in further initiatives next year to address these concerns:

- Insufficient transparency in or misleading advertising/marketing/sales literature
- Inconsistent information disclosure
- Focus on price within advertising material for non-life products and not the terms and conditions
- Enhanced point of sale information required to provide fair and balanced information that is not misleading
- Poor product disclosure/selling practices when insurance has been bundled with another product, resulting in a lack of awareness that an insurance product has been acquired
• Restrictions/exemptions meaning the product is poor value for money
• Mis-selling
• Conflicts of interests and sales incentive schemes
• Inappropriate policy switching (for example from guaranteed to products with lower/no guarantees)
• Claims handling weaknesses (such as inappropriately refused claims and delays in payment)
• Low level of financial literacy amongst consumers.

European stress test

On 30 November 2014, EIOPA's European insurance stress test exercise centered on both adverse market and insurance industry scenarios. A separate exercise was also conducted to assess the impact on life insurers who are most affected by the low interest rate environment of either an elongated period of low, or of a sudden reversal in, interest rates.

Much of the media coverage following the release of the results on 30 November centred on the 14 percent of companies that could not cover their solvency capital requirement (SCR) at the end of 2013, rather than EIOPA's first bullet in its own press release – that the insurance sector is in general sufficiently capitalized in Solvency II terms.

However, overall statistics can present a distorted picture and these 14 percent of companies only accounted for 3 percent of assets. This may be due in part to the variances in the level of participation across insurance markets, with the three largest insurance markets (UK, Germany and France) achieving in the order of 50 – 60 percent coverage with few participants, whereas some of the smaller European insurance markets had coverage of nearer 100 percent.

A particular problem with the exercise was that it only tested the standard formula calibration of the solvency capital requirement (SCR) and not the impact on internal models. As stated in the Solvency II section above, there are around 175 full or partial internal models being applied for across Europe, which is likely to include many of the participants. The 14 percent figure cited above may have been significantly lower had firms been permitted to use their expected Solvency II SCR basis. This is likely to be the case for the only Top 30 European insurer that was unable to meet its SCR. For the rest of the Top 30, over 60 percent showed coverage in excess of 150 percent of SCR after the stress event.

Stress test results

The insurance scenarios tested were extreme, but on average, none of these reduced capital levels by more than 10 percent.

The market stress results were distorted by the simplifying approach of not recalculating the SCR post stress (which would happen in reality) and a significant number of the smaller firms that participated not making use of the long-term guarantees (LTG) measures that would be available to them. The true position in such extreme events would therefore be stronger than the results reveal.

Unsurprisingly, insurers are most exposed to a combination of both asset values decreases and low interest rates. However, even under such extreme conditions and without the mitigants available to them, while there was a significant reduction in the SCR ratio, policyholder liabilities would still be covered.
**Low yield environment**

The impact of the low yield environment has been recognized as a concern for some time and the results reconfirm this. However, while a significant proportion of firms would fail to meet their SCR (24 percent under the continuation scenario and 20 percent under the sudden reversal scenario) they also show that it would take around a decade of low interest rates before some insurers could become potentially unable to meet all policyholder payments. This would allow most insurers time to respond to the new norm and develop action plans to reduce any customer detriment. Where this is a particular issue for a local market, local regulators have undertaken further work to assess the seriousness of the issue and the action they need to address.

Insurers should consider the potential impact of the findings on their own businesses. This will include the extension of reverse stress testing to more fully consider the impact on their business model, policyholders and the wider economy, and to determine the mitigating actions that would be available. In some respects, a first step towards recovery plans.

**Table 2: EIOPA Stress Test: Unbundling the headlines**

**14 percent of companies fail to cover their SCR**

- Participation levels varied significantly (the three largest insurance markets – UK, Germany and France – achieved 50–60 percent coverage from few participants, smaller markets had coverage nearer 100 percent). This distorts the overall statistics.
- These companies only account for 3 percent of European insurance assets.
- The exercise only tested the standard formula calibration of the SCR. If the 175 full or partial internal models being applied for across Europe had been allowed, the failure rate could have been significantly lower.
- This is likely to be the reason why one Top 30 European insurer that was unable to meet its SCR. For the other 29, over 60 percent had an SCR ratio in excess of 150 percent.

**Sector is exposed to a “double hit” stress combining asset value decreases and low risk-free rate**

- The market stress results were distorted by the simplifying approach of not recalculating the SCR post stress and a significant number of the smaller firms not making use of the long-term guarantees (LTG) measures available to them. The true position in such extreme events would therefore be stronger than the results reveal.
- The “double hit” scenario would be extreme conditions, yet despite the factors above, while there was a significant reduction in the SCR ratio, policyholder liabilities would still be covered.
- The insurance scenarios tested were extreme, but none of these reduced capital levels by more than 10 percent.

**In a prolonged low yield scenario, 24 percent of insurers would not meet their SCR**

- The impact of the low yield environment has been recognized as a concern for some time and the results reconfirm this.
- However the results also show that it would take around a decade of low interest rates before some insurers could become potentially unable to meet all policyholder payments. This would allow time for most insurers to respond to the new norm and develop action plans to reduce any customer detriment.

**Overall, the results demonstrate the strength of the European insurance sector**

Source: KPMG International 2015.
Recovery and resolution planning

Whilst a banking recovery and resolution directive was passed in April 2014, there remains as yet no such directive for insurers. The work conducted in 2012 on a possible framework for the recovery and resolution of financial institutions other than banks may have stalled, but it certainly has not gone away. However, it is unclear whether insurers will remain within its remit, as the description included in the Commission’s work plan for 2015 dated 16 December 2014 now describes this as a “Proposal to create a European framework for the recovery and resolution of systemically relevant financial institutions such as Central Clearing Counterparties”.

Notwithstanding this apparent change in stance, some national authorities look likely to proceed with some form of contingency planning requirements for at least those insurers deemed to pose a systemic risk nationally. For example, in the UK a new Fundamental Rule was introduced during 2014 that requires all regulated firms (irrespective of sector) to “prepare for resolution so, if the need arises, it can be resolved in an orderly manner with a minimum disruption of critical services”.

In its advice to insurers, the UK Prudential Regulatory Authority stated that “Insurers should provide to the PRA on request all information needed to perform an assessment of their resolvability”. Where significant barriers to resolvability are identified, the PRA expects insurers to propose and implement adequate changes to reduce these, setting out credible steps to maintain or restore their business to a stable and sustainable condition in the event of stress. However, it should be noted that the PRA is currently operating on an ‘on request basis’ and its discussions with insurers regarding resolution plans will vary depending upon insurers’ systemic importance, proximity to failure, or other reasons such as major transactions being contemplated.
The regulatory environment in Switzerland in 2014 was characterized by multiple regulatory initiatives, all of which may have significant impacts on insurance companies. The main trends of last year can be summarized as follows:

- The adoption of international standards by Switzerland
- The spill-over-effect of banking law into the insurance domain
- Strengthening consumer protection laws.

The increasingly international nature of regulation has impacted the Swiss market, in particular, the growing powers of supra-national bodies such as the IAIS. Standards of supervision and insurance risk management are being set at the global level and the Swiss Financial Market Supervisory Authority (FINMA) will comply with these in order to retain its position as a globally respected supervisor. The wave of consumer protection legislation from the European Union provides opportunities but also poses challenges for distribution units, compliance departments, product development, and as such is a subject for urgent Board level consideration.

ICP Compliance and Solvency II equivalence

In 2014, the IMF completed its Financial Sector Assessment Program of the Swiss prudential system. As expected, the level of compliance with the ICPs was very high, but there were still a few significant recommendations including the need for more on-site inspections, direct supervision of intermediaries and increased disclosures. As in several other recent FSAPS, the reviewers urged FINMA to develop a stronger market conduct.

One surprising item in the FSAP was the suggestion that FINMA increase its supervision of the branches of third-country reinsurers, since the IAIS does not have a standard regarding oversight of branches. In 2013, the IAIS released an Issues Paper on The Supervision of Cross-Border Operations through Branches, which explored current supervision rules, but did not recommend one approach.

Switzerland is a candidate for full equivalence under Solvency II. EIOPA’s assessment of the Swiss compliance with Solvency II was very positive, but there remain concerns that recent political issues around foreign workers might result in problems in Parliament when the equivalence delegated acts are presented.

Prudential

A partial revision of the Insurance Supervision Ordinance (ISO) is expected to become effective on 1 July 2015. There were a number of reasons to revise the current ISO:

- The lessons learnt from the financial and economic crisis
- The equivalence assessment of the Swiss Solvency Test (SST) by EIOPA
- The FSAP

The changes to the ISO will affect the areas of solvency, qualitative risk management and disclosure. Parallel to that, adjustments will be made in the areas of insurance technical reserves, tied assets, intermediary supervision and to certain sector-specific provisions.
The current ISO permits use of equivalent solvency measurement methods, whereas the new ISO will require all insurance companies in Switzerland to follow the SST. With regards to qualitative risk measurement, an ORSA requirement will be introduced, a compliance function will be established and a framework for liquidity will be imposed.

Conduct of business and consumer protection

MIFID 2 / FIDLEG

As stated in the Europe chapter, MiFID 2 adds consumer protection provisions to IMD in relation to the distribution of “insurance-based investment products”. However, the consultation draft of the Swiss Financial Services Act (FIDLEG) affects the insurance industry directly, as it covers all providers of financial instruments. If this scope is unchanged in the final legislation, insurance companies as well as insurance intermediaries in Switzerland will have to address a range of strategic questions and thoroughly plan for the implementation of the FIDLEG rules.

However, there is still a high uncertainty regarding the timing and the final content of the legislation.

Automatic Exchange of Information

Switzerland has been under increasing pressure for more tax transparency ever since the global financial and economic crisis and the resulting considerable financing needs of various countries. The OECD took a decisive step toward international tax transparency when it presented the future standard for the Automatic Exchange of Information (AEoI) on 13 February 2014.

Insurance companies have to carefully consider the impact of AEoI on their clients, business processes and IT-infrastructure. AEoI is not FATCA 2.0. For those insurance companies with a significant customer or investor base outside their home country, AEoI means a big increase in the volume of data to be collected and reported to the local tax authority. Regularization, IT-infrastructure as well as data quality, privacy and data protection are key factors for an effective implementation of the standard.
The CEE region covers 18 countries\(^3\) of different sizes with diverse market and economic development. However, these countries follow similar paths – transitioning from centrally run socialist regimes, some to then passing through European Union accession and the need to transpose European laws, while others have reached a “mature” phase in their integration into Europe.

Motor third party liability business is the most important line of business in most CEE countries and there have been a number of developments that have helped increase premium levels, including liberalization of the market and freeing market competition (Croatia), a new Civil Code which will likely increase disability benefits (Czech Republic) and new regulations applicable from 1 January 2015 (Romania). Romania also changed the rules relating to admissible assets to cover technical reserves with effect from the same date.

Most of the CEE insurance markets are dominated by subsidiaries of groups based outside the region, although this year has seen some evidence of subsidiaries becoming branches of European insurers. This may be part of group plans to increase group efficiency in a Solvency II world, although it is too early to tell whether this trend will continue.

ICP compliance

None of the CEE countries is on the list of countries subject to mandatory FSAP review for the insurance sector. Harmonization with European directives is a higher priority than ICP compliance.

Prudential developments

In Romania, EIOPA, the European Commission and local supervisor are carrying out a Balance Sheet Review exercise during the first half of 2015. A representative sample of the insurance market (13 largest companies) was selected to be reviewed for all assets (not only those covering technical provisions) and all liabilities by an independent reviewer. The scope of the exercise is to test the insurance market against predefined stress scenarios and assess the readiness of the Romanian market for Solvency II compliance.

Elsewhere, in line with EIOPA preparatory guidelines, supervisors require action from insurance companies ahead of Solvency II implementation. For example, in Lithuania and Romania, firms have to submit a FLAOR/ORSA policy and report by January 2015. In addition, firms in Lithuania shall submit a second run of FLAOR during 2015. In the Czech Republic and Hungary, firms are required to follow timetables that include a range of steps leading up to 1 January 2016.

New rules are currently being considered in Serbia, which would reflect capital levels set out in the existing Solvency I directives, rather than Solvency II.

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\(^3\) According to KPMG classification the region covers: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.
Conduct of business and consumer protection

With no maximum harmonization measures in the consumer protection area currently in existence at European directive level, national rules in this area differ across the region.

In the Czech Republic, distribution is dominated by so-called Multi-level firms. Their biggest motivation tends to be sales volume and commission levels, which can act to the detriment of quality of sale, with multi-level firm networks seen switching their clients from one company to another. In response, the supervisor has recently introduced rules for insurers aimed at enhancing the quality of sales advice and distribution generally. These rules will have a significant impact on their internal control systems, quality monitoring and information disclosure, so these are currently under hot debate. Beyond that, the Czech Insurance Association adopted its self-regulation standard regarding information disclosure to clients. In addition, a new law on intermediaries is under way which will enlarge the scope of the requirements (for example to include employees of insurance firms involved in distribution of insurance products).

The Association of Hungarian Insurance Companies introduced self-regulation related to quality of sale and they have agreed how to calculate and present costs related to unit-linked products. Recently, new provisions have been incorporated into the Act on Insurance regarding life insurance commissions, which will become effective in 2015. These will limit the level of life insurance commissions and prohibit payment of any commission that exceeds the premium paid by the policyholder.

In Poland, insurers lost recent court decisions related to ‘surrender charges’ on unit-linked policies, which could result in insurers suffering losses, as these decision set precedents for all policyholders.
Since the establishment of the “mega-regulator” under the Central Bank of Russia (September 2013), there have been many legislative changes introduced, such as development of new sector accounting rules (transitioning from Russian GAAP to IFRS, including an analysis of catastrophe events), updates to solvency requirements, mandatory actuarial valuation and revision of limits and tariffs applying to compulsory motor third party liability business (CMTPL). Most of the changes are considered to have positive effects on the market.

ICP compliance

Although in the 2011 FSAP a formal assessment of compliance with IAIS principles was not undertaken, the FSAP did indicate that the supervisory framework departed from international standards in a number of areas. Licensing did not require insurers to have the necessary operational infrastructure, in the form of internal controls and risk management functions. The range of individuals to which fit and proper requirements apply was limited. Also, the supervisory agency did not have the power to disqualify key managers, including auditors and actuaries, who do not comply with the fit and proper requirements. While cooperation and information-sharing appeared to function, the home-host notifications and other relevant cross-border cooperation activities were not mandatory for the supervisory agency. Group-wide supervision was not incorporated in the regulation and presents a major risk to the objectives of supervision, given the importance of group activity. Preventive and corrective actions were missing from the current supervisor powers. Since then efforts have begun to address these concerns.

Prudential developments

As mentioned above, the new insurance accounting standard introduced a requirement for mandatory actuarial valuation of insurers’ performance. This requirement was brought into actuarial standards from November 2013 (the Law on Actuarial Activities (FS-293)) and is applicable from 1 January 2015. This actuarial opinion will be appended to insurers’ financial statements, which are published online.

On 1 September 2014, the Central Bank of Russia proposed a draft directive “On calculating regulatory equity/liabilities ratio for insurers”, which will change the calculation of the standard solvency ratio:

- For life insurance, the standard solvency ratio will be set at 4 percent of the life reserve net of reinsurance, with an additional charge for capital at risk (for death risk) [Similar to Europe’s Solvency I directives]
- For non-life insurance, the revised basis will be closer to Solvency II methodology, with very close alignment to its standard formula requirements for non-life underwriting risk, considering the net written premium, net loss reserve and standard deviations for premium and reserve risks, assessing combined premium and reserve risk for each accounting group and taking into account correlation between accounting groups in their portfolios.

On 1 September 2014, the Central Bank of Russia proposed a draft directive “On calculating regulatory equity/liabilities ratio for insurers”, which will change the calculation of the standard solvency ratio. 
• An equalization reserve is added for some accounting groups.

In November 2013, State Duma enacted the Law on Actuarial Activities (FS-293), which became effective from 1 January 2015. This requires insurers to undertake mandatory actuarial valuations and requires the actuarial opinion to be appended to insurers’ financial statements. These actuarial opinions can only be provided by responsible actuaries, with efforts being made to increase their number.

**Conduct of business and consumer protection**

The revision to CMTPL limits and tariffs can be summarized as follows:

• Property damage: Prior to 1 October 2014, the CMTPL limit was 120 RUB’000. This was increased to 400 RUB’000 on 1 October and then increased again ten days later by a further 23-30 percent. The proposed base tariff is within the corridor of 2440-2574 RUB (previously 1980 RUB).

• Injuries and death: The CMTPL limit will be increased to 500 RUB’000 on 1 April 2015, although there is no change to CMPTL tariffs expected.

These changes could potentially have a negative effect on the CMTPL loss ratio, taking into account high court charges and the level of fraudulent claims following the extension of the Consumer Protection Law to the insurance industry in 2012.
The insurance sector in the GCC region comprises six counties: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia (KSA), and United Arab Emirates (UAE). Generic developments are covered in the following paragraphs, followed by specific country developments.

ICP compliance
Regulatory change has started to pick up pace across the region with implementation of the ICPs and overall modernization of the insurance sector. Since the last edition of this report, UAE has become the latest country in the region to take steps towards modernization of insurance sector regulation. However, there are also initiatives in the pipeline in Saudi Arabia. In Qatar, with the transfer of insurance sector regulation to the Qatar Central Bank (QCB), there are indications that new regulations in compliance with ICPs are likely to be issued soon with an aim to enhance and modernize the sector.

Prudential developments
Most of the insurance supervisors in the region now require insurers to submit a Financial Condition Report on their solvency condition taking into account current financial status and an assessment of the ability to survive future risk scenarios.

Conduct of business and consumer protection
Shari’a-compliant insurance products such as Takaful continue to dominate the landscape in the middle-east region. The Central Bank of Bahrain (CBB) has introduced new regulations mainly focusing on the Takaful sector.
Bahrain’s solvency capital framework is not yet risk-based. However during 2014, the CBB issued amendments to its Rulebook that were mainly focused on the Takaful and Retakaful sector.

Bahrain has a leading Takaful (including Retakaful) sector, which is one of the fastest growing segments of the industry. However, the regulator needs to take steps to enhance insurance regulation with a view to regaining its position as a leading jurisdiction of choice, a global financial center and providing an international standard of infrastructure, regulatory environment and necessary support for innovative solutions.

Bahrain’s solvency capital framework is not yet risk-based. However during 2014, the CBB issued amendments to its Rulebook that were mainly focused on the Takaful and Retakaful sector.

The key changes impacting the Takaful/Retakaful sector included:

- Assessment of solvency requirements at firm level rather than takaful fund level
- Requirement for firms to inject capital and notify the CBB immediately if capital falls below the minimum fund
- Prohibition of performance fees and variable wakala fees for the Takaful Operator.

However some of the amendments also apply to the wider insurance sector, such as requirements for Financial Condition Reports.
Kuwait is one of the smaller insurance markets in the GCC region and it is dominated by domestic insurers. It is the only country in the GCC that is not a member of the IAIS and is the only one without an independent insurance regulator. Discussions to establish an independent insurance supervisor and modernize insurance regulations remain in progress.

Domestic insurers represent the bulk of the insurance market in Oman. In terms of regulatory developments, Royal decree No. 39/2014 was issued on 12 August 2014, amending certain provisions of the Insurance Companies Law. These include:

- Minimum capital requirement doubled to RO 10million, with a three year transitional period for existing insurers
- At least 40 percent of shares must be listed on the Muscat Stock Market within 3 years
- Separate legal entities required to be established for life and general business for entities currently operating as composite insurers

The new requirements are expected to be positive for Omani insurers because it will improve their access to capital market funds, strengthen their capital, make them more transparent and enhance the financial strength of the insurance market. The increased capital requirements may encourage consolidation among some of the smaller players, as well as pose a barrier to new entrants, which could aide market stability in the medium-term.
State of Qatar

The Qatar insurance sector is vibrant, growing and highly competitive and looks set to benefit in the lead up to the 2022 World Cup, with major infrastructure and construction projects across the country. The insurance sector generally is taking steps to enhance insurance regulation with a view to developing a global financial centre and providing international standard infrastructure, regulatory environment and necessary support for innovative solutions.

Significant regulatory changes will come through the QCB’s introduction of its regulatory framework for insurers, which is widely expected to be based on the ICPs. The Qatar Financial Centre Regulatory Authority (QFCRA) is also continuing its efforts to align Qatar with international practice, with amendments to the QFCRA Prudential Insurance Rulebook (based on ICPs) having come into effect on 1 January 2015.

For most insurers, the current wave of change will present challenges to their business models, cost structures and the way in which they communicate with stakeholders.

Kingdom of Saudi Arabia (KSA)

The recent plunge in oil prices and a supply glut in the global market have had a negative impact on Saudi Arabia's GDP growth. The Saudi Arabian insurance industry has grown in the past few years, mainly owing to consistent economic expansion within the country. Future growth is expected from the dynamic demographics of Saudi Arabia, with high consumption rates and public spending on infrastructure projects remaining the key catalysts.

Regulatory changes are likely to be drivers of growth, as was seen when the Saudi Arabian Monetary Authority (SAMA) announced mandatory health insurance in 2006 and compulsory third party insurance in 2007. In 2014 another mandatory insurance was implemented with the Council of ministers deciding that 'All high-risk facilities and activities as well as crowded places belonging to the government or private agencies, and run by private companies or establishments, are obliged to provide third party cooperative insurance'. SAMA also has plans to introduce mandatory third party liability cover for organizations carrying out hazardous activities in residential areas.

In June 2014, SAMA announced draft corporate governance regulations, which is a big step towards high standards of governance in the insurance industry. However in KSA (as in other GCC countries) the premium rates are not underwritten, but are based on competitiveness decisions. It is expected that actuarial-led reserve setting, monitoring and reporting (in order to enhance reserve adequacy and provide a benchmark for insurers in price setting) will become a key focus for regulators.
United Arab Emirates (UAE)

UAE is one of the largest and most dynamic insurance markets in the GCC. The introduction of shari’a-compliant insurance products such as Takaful has substantially changed the landscape in the Middle-East region, particularly the GCC. Products compliant with the Islamic laws like Takaful are an important growth driver for the UAE insurance sector.

At present, there is no solvency capital requirement (SCR) applied to onshore entities. However a proposed instruction (which is not yet implemented) will change this, establishing the following requirements:

- The SCR shall be calculated on the presumption on a going concern basis
- The SCR shall be calibrated to ensure that all quantifiable risks that a company is exposed to are taken into account. For existing business, this will cover unexpected losses only. Business which is expected to be written over the following twelve months must also be included
- The SCR shall correspond to the VaR subject to a confidence level of 99.5 percent over a one-year period. It shall cover at least the following risks:
  - Properties and Liability underwriting risk; family underwriting risk; health underwriting risk; market and Liquidity risk; credit risk; and operational risk
- The Solvency reporting information shall include the following, at a minimum:
  - Total capital available including the capital structure
- Solvency margin required as per the solvency regulations
- Own funds broken down by basic and ancillary
- Details on model and assumptions applied
- Valuation principles applied for solvency purpose
- System of governance applied by the company
- The business that the company is pursuing
- Details on risk faced and risk management system.

Offshore insurance entities are required to maintain a minimum level of capital resources in accordance with chapter Four of Prudential – Insurance Business Module.

Group capital adequacy may also be implemented in the future.
The EAC covers five countries: Kenya, Uganda, Tanzania, Rwanda and Burundi. Since its establishment in 2000, there have been intense efforts by the EAC secretariat to foster regional growth and harmonization. The EAC Financial Sector Development and Regionalization Project I (FSDRP I) was established to lay the foundation for financial sector integration among EAC countries.

The insurance regulators for the EAC countries are: Insurance Regulatory Authority (IRA) in Kenya and Uganda, Tanzania Insurance Regulatory Authority (TIRA) in Tanzania, National Bank of Rwanda (BNR) in Rwanda, and Insurance Regulatory and Control Agency (IRCA) in Burundi.

ICP compliance

None of the EAC countries is on the list for mandatory FSAP review. However, EAC insurance supervisors have been making significant changes to build compliance with ICPs in order to comply with the proposed EAC risk-based law which is pending finalization. A recent review by KPMG of the five EAC countries’ insurance regulatory frameworks’ compliance with ICPs revealed that the principles and associated standards are recognized to varying extents in each country. The countries are also at varying stages of implementing their insurance regulatory frameworks and their respective insurance industries are at different stages of maturity. The outcome of the KPMG review was the development of a harmonized insurance policy framework and draft bill for the five EAC partner states based on ICPs.

Kenya is in the process of enacting a new risk-based insurance act. To support this move, the IRA acquired an Electronic Regulatory System which will increase efficiency in returns submission, data validation and increase quality of information released by the IRA. Kenya has issued guidelines in the areas of risk management and internal controls, actuarial function, external auditors and reinsurance.

Uganda has embarked on the process of preparing new prudential returns, new solvency framework, corporate governance and risk management and in Rwanda, the Financial Sector Development Program II mentions the adoption of risk-based supervision for the insurance sector.

The insurance harmonization efforts in EAC present a good opportunity for regulators to develop a consistent regulatory framework that allows better risk management within insurance companies.

Prudential developments

Solvency measures are currently simple and formulaic in each country, with no risk-based solvency assessment or inclusion of non-insurance risks.

Conduct of business and consumer protection

The EAC countries have embraced technology to handle consumer complaints and education, with each supervisor having a section of their website dedicated to this. In addition, Tanzania has established an ombudsman service for handling disputes arising between insurance consumers and insurance registrants’ business in the country. In Kenya, the Consumer Protection Department assists in resolving consumer complaints.

The proposed EAC insurance policy framework recommends that in order to improve consumer protection, all EAC countries should either establish an office of the “Insurance Ombudsman” to resolve disputes arising from insurance consumers and licensees in the industry or for such a body to be established at a regional level.
Ghana is currently experiencing a challenging economic environment, with debt levels increasing and declining revenues due to falling commodity prices, contributing to depreciation of the Cedi against major foreign trading currencies and a rise in consumer price indicators. However, the discovery of oil is gradually transforming the economy. The insurance industry is expected to benefit from this as a recent protocol between the insurance regulator, the National Insurance Commission (NIC) and the Petroleum Commission mandates companies in the petroleum sector to cede their insurance business locally. The introduction of agricultural insurance (currently covering maize but expected to be extended to other crops and livestock) and the implementation of compulsory insurance of commercial buildings are also expected to grow the insurance industry.

Against this backdrop, the Ghana insurance industry has seen strong growth in both the life and non-life insurance sectors, although insurance penetration in the country remains low at around 1.4 percent with less than 5 percent of the population having an insurance product, according to an official survey. Growth in the non-life sector has been driven by a combination of enhanced public education, development of innovative new products and increased use of alternative distribution channels.

Ghana launched its micro insurance regime in February 2013 which the NIC hopes will increase the level of insurance penetration in the country. Several micro-insurance products are now being offered, such as education, funerals, family, credit, accident and hospitalization. The products are specifically targeted at the low-income population and are designed to meet specific characteristics (including affordability and accessibility), with policies expressed in clear language.

Foreign participation in Ghana’s insurance market is mainly by large African insurance companies from Nigeria, South Africa and Ivory Coast through local subsidiaries. However, a number of European insurance companies are now expanding their presence to capitalize on the economic growth prospects and political stability.

ICP compliance
Ghana is a member of the IAIS, so the NIC has regard to ICPs in developing new legal and regulatory requirements. NIC regulatory directives set out general requirements for corporate governance and require insurers to establish risk management strategies and policies. It also requires technical provisions to be based on actuarial methods, with solvency computations based on ICPs.

In terms adequacy requirements, a new insurance bill includes adoption of capital-based requirements (as opposed to a solvency margin approach). Although the solvency requirement will not be risk-based, the language in the bill is designed to enable the NIC to adopt risk-based capital adequacy requirements at a future date.

Prudential developments
The minimum paid up capital requirement has been increased threefold to GHC 15 million to encourage mergers and acquisitions as the NIC seeks to ensure stability and strengthen insurers’ ability to underwrite large risks. Additionally, the
NIC has directed insurers to deposit 10 percent of the minimum capital requirement in an escrow account with Bank of Ghana in a move to ensure sufficiency of resources to absorb liquidity shocks.

In 2013, work commenced on a draft insurance bill to address limitations to the existing Insurance Act, which dates from 2006. Once approved, this will address both prudential and consumer related matters. Key aspects of the bill are included below and in the conduct section that follows. The draft bill would also prioritize licensing for specialized insurers dealing in micro-insurance and agriculture insurance.

From a prudential aspect, the bill and various regulatory directives will require insurance companies to put in place new governance systems and risk management frameworks, with strengthened internal control requirements and oversight functions in respect of compliance/risk management, actuarial function and internal audit. Reporting structures between these oversight functions and the board will need to be clearly articulated.

From 31 December 2015, insurance companies will need to estimate their incurred but not reported (IBNR) claims using an actuarial based method (currently taken as 20 percent of outstanding claims). Audit firms will also need to have access to actuarial resources to enable them to assess adequacy of technical provisions.

The NIC will also adopt a more risk-based approach to supervision, ranking insurance companies based on technical provisions, policies, procedures and practices in place to mitigate enterprise-wide risk.

**Conduct of business and consumer protection**

One of the most significant reforms has been the introduction of a “No Premium No Cover” policy from 1 April 2014. This requires all insurance companies to collect premiums upfront before providing insurance cover, preventing the sale of products on credit to customers. This arose from NIC concerns about the high levels of outstanding premiums and provision for bad debts and concerns that the low level of recoveries could threaten the sustainability of the insurance industry.

The NIC also developed new guidelines (effective 1 August 2014) to compel insurance companies to pay claims that have been established as genuine within seven days in an effort to boost consumer confidence that had been badly affected by claims redemption challenges.

The Ghana Insurers Association is also building a database to detect and prevent fraud in the insurance industry. The project, dubbed the Ghana Insurance Industry Database and supported by the NIC, aims to provide market data to improve the service delivery of insurance companies in the country. The data will be stored in a central repository and include information on existing policy risk and claims collected from all insurers. This is currently being piloted in the motor insurance industry, but depending on its success, will be expanded to cover the entire industry in the next three years.
Nigeria is now the largest economy in Africa and one of the 20 largest economies in the world. It also has the largest insurance market in the West Africa sub-region, although the penetration rate is below 1 percent. Insurance is principally sold through brokers and agents.

Growth in life business has been driven by the introduction of the Market Development and Restructuring Initiative, which mandates group life insurance for companies. About 70 percent of the life business falls into this category, with individual life constituting 20 percent and group pension 10 percent.

Historically, there have been low levels of overseas insurance groups operating in Nigeria; although there are some signs that interest is increasing as insurers seek to take advantage of the low penetration rates.

ICP compliance

The insurance regulator, National Insurance Commission (NAICOM), is a member of the IAIS so is mindful of ICP compliance and has plans to implement the provisions of ICP 16 on Enterprise Risk Management for Solvency Purposes and ICP 17 on Capital Adequacy, subject to maintenance of the minimum regulatory capital base.

NAICOM plans to enforce the provisions of its guideline for developing a risk management framework for insurers and reinsurers (issued in 2012) in the near future.

Prudential developments

As stated above, there are planned changes relating to ICP 16 and 17. However the current solvency calculation is relatively simple.

Conduct of business and consumer protection

NAICOM has had a Customer Complaint Bureau to help resolve disputes arising from non-settlement of claims since 2009. In addition, the Insurance Consumers Association of Nigeria, which was set up by insurance consumers and works with NAICOM to encourage the general public to buy insurance products, also serves as a pressure group for consumers to appeal to the insurance companies to be fair in their relationships with them.

Currently, NAICOM is in the process of issuing a Market Conduct Guideline, which aims to engender consumer confidence in the sector as well as deepen penetration rates. This guideline is expected to provide the potential policyholder with the opportunity to understand more fully the contract terms, their rights and entry and exit rules before entering into the contract. It is also expected to include a two-week ‘cooling period’ to enable policyholders to withdraw from an insurance contract without loss.

NAICOM is also developing a consumer education strategy to enhance consumers’ understanding of insurance products, which is expected to be finalized in the second quarter of 2015.
South Africa

The system of supervision of insurance in South Africa is undergoing significant change, with South Africa moving to a twin peaks model of supervision, with the South African Reserve Bank (SARB) taking over responsibility for the micro and macro prudential regulation of all financial institutions, while the reconstituted Financial Services Board (FSB) will become the Market Conduct Authority. Current expectations are that the enacting Bill will be tabled in Parliament before the end of June 2015.

For the insurance industry this marks a significant change, as the FSB has been both the prudential regulator and conduct supervisor. The SARB historically acted as the prudential regulator for banks. Bancassurers play a significant role in the South African insurance market, so it is hoped that the move to a consolidated prudential regulator should improve macro prudential supervision.

Meanwhile the local business of insurance continues to show some growth, but the difficult economic climate is driving expansion into new markets and product innovation. There may be particular challenges ahead for medical insurers, as regulators seek to harmonize the rules applying to medical schemes (which are unable to underwrite and select members based upon risk criteria) and medical insurance (which can).

Legislation currently divides the South African insurance market into separate life, non-life and health sectors. While the life and non-life underwriting activities are run as for-profit industries, the health sector is generally not-for-profit and it is the administrators of medical schemes that make the profits in the health sector. The proposed regulations, if enacted, would result in most health insurance being underwritten on the same principles applied by medical schemes (i.e. no risk selection allowed). They also aim to align commission payable by insurers on their health offerings with those of the medical schemes industry, as well as prescribed benefits.

ICP compliance

Developments across both market conduct and prudential regulation aim to keep the industry on par with the most well regulated insurance markets in the world, whilst ensuring compliance with international standards.

In 2014, the IMF completed an FSAP of the FSB-SA. The report noted planned changes underway regarding corporate governance, risk management, conduct of business reporting, financial disclosures, and consumer protection and encouraged the FSB to move quickly to implement these changes. The FSAP further recommended action to protect policyholders in a winding-up through either a policyholder protection scheme or change in priority of payments and to develop better crisis preparedness plans.

Prudential developments

Prudential regulation of the insurance industry is moving ahead strongly with the continuing development of Solvency Assessment and Management
SAM. SAM is a risk-based regulatory framework for prudential supervision, following a three-pillar approach: capital requirements; risk management and governance; and reporting. SAM has been developed with the intention that South Africa will be granted temporary equivalence under Solvency II.

The current planned implementation date of SAM is 1 January 2016. From 1 July 2014, insurers have been required to prepare parallel regulatory reporting. In 2015, the quantum and complexity of this reporting will increase.

The regulator recently released, for public comment, its preliminary views following a review of the capital requirements for insurers that reinsure their risks locally as opposed to with foreign reinsurers. The regulator also considered whether to allow branches of foreign reinsurers to operate in South Africa. If the proposals are implemented, a locally incorporated reinsurer will have less punitive capital requirements when compared to branches of foreign reinsurers.

**Conduct of business and consumer protection**

The FSB, since 1 January 2014, has expected insurance companies to demonstrate compliance with Treating Customers Fairly (TCF) principles. This regime is an outcomes-based regulatory approach that seeks to ensure that specific, clearly articulated fairness outcomes for financial services consumers are delivered by financial institutions. Incorporating experiences from other jurisdictions, the regulator has included both proactive and reactive measures within the regulatory framework. Increased activity from the regulator has seen many insurance companies reacting with enthusiasm to ensure that their TCF programs are in place and well evidenced. The regulator has to date not yet issued any significant fines relating to TCF.

Since the implementation of the Financial Advisory and Intermediary Services Act in 2002, the regulation of intermediated services has been constantly amended, tweaked and improved. These changes have continued to improve the professionalism of intermediary services, disclosure to clients and quality of service.

More recently, organizations that “enter into, vary and renew policies” or “approve and settle claims” on behalf of insurers (so-called binder entities) have received significant attention. The binder regulations seek to regulate contracting provisions, payments for performing binder functions and the governance of these relationships. Amendments proposed during July 2014 will address “emerging undesirable practices and regulatory gaps” that have become known since the regulations were first published in 2012.

The binder regulations are bolstered by the draft Retail Distribution Review (RDR) paper released during November 2014. RDR aims to amend archaic commission and remuneration structures to promote better customer service in the intermediated insurance space. RDR will significantly change and clarify the types of intermediary services offered. It will also change relationships between product suppliers and intermediaries, as well as remuneration structures.

A detailed review of consumer credit insurance practices is underway. Following a project, led by government and to which affected regulatory bodies contributed their views, a technical report was issued during July 2014. The report highlighted the key focus areas that will drive regulatory change in this area.

In the retail space, product innovation has focused on providing incentives for customer loyalty. Certain direct life insurers are offering cash back on life risk products; others are offering premium re-rating based upon good behavior (notably telematics in the motor area). Playing off powerful brands in the retail market, insurers are also using white labeling to sell to new markets. Pressure to innovate in the digital space is increasing and cyber-crime insurance is a new hot-topic amongst insurers and intermediaries. Regulators are actively following these developments with a view to introducing regulatory oversight, where required.
## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEC</td>
<td>ASEAN Economic Community</td>
</tr>
<tr>
<td>AEoI</td>
<td>Automatic Exchange of Information (Switzerland)</td>
</tr>
<tr>
<td>ALM</td>
<td>Asset Liability Management</td>
</tr>
<tr>
<td>APRA</td>
<td>Australian Prudential Regulation Authority</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>ASPAC</td>
<td>Asia and Pacific Countries</td>
</tr>
<tr>
<td>BCR</td>
<td>Basic Capital Requirement</td>
</tr>
<tr>
<td>BMA</td>
<td>Bermuda Monetary Authority</td>
</tr>
<tr>
<td>BNM</td>
<td>Bank Negara Malaysia</td>
</tr>
<tr>
<td>BNR</td>
<td>National Bank of Rwanda</td>
</tr>
<tr>
<td>BWP</td>
<td>Botswana Pula</td>
</tr>
<tr>
<td>C-ROSS</td>
<td>China Risk Oriented Solvency System</td>
</tr>
<tr>
<td>CAP</td>
<td>Common Application Package for Internal Models</td>
</tr>
<tr>
<td>CAR</td>
<td>Capital Adequacy Ratio</td>
</tr>
<tr>
<td>CBB</td>
<td>Central Bank of Bahrain</td>
</tr>
<tr>
<td>CBO</td>
<td>Central Bank of Oman</td>
</tr>
<tr>
<td>CBRC</td>
<td>China Banking Regulatory Commission</td>
</tr>
<tr>
<td>CEE</td>
<td>Central and Eastern Europe</td>
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<tr>
<td>CEL</td>
<td>Current estimate of liabilities</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief executive officer</td>
</tr>
<tr>
<td>CFO</td>
<td>Chief financial officer</td>
</tr>
<tr>
<td>CIITMC</td>
<td>China Insurance Information Technology Management Company</td>
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<tr>
<td>CIRA</td>
<td>Commercial Insurer Risk Assessment</td>
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<td>CIRC</td>
<td>China Insurance Regulatory Commission</td>
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<tr>
<td>CISSA</td>
<td>Commercial Insurers Solvency Self Assessment</td>
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<td>CMA</td>
<td>Capital Markets Authority</td>
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<tr>
<td>CMGs</td>
<td>Crisis Management Groups</td>
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<tr>
<td>CMPTL</td>
<td>Compulsory motor third party liability business</td>
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<tr>
<td>ComFrame</td>
<td>A comprehensive supervisory framework for the supervision of internationally active insurers</td>
</tr>
<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
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<td>CRO</td>
<td>Chief Risk Officer</td>
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<td>CSM</td>
<td>Contractual service margin</td>
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<td>C&amp;SRI</td>
<td>Capital and Solvency Return (Bermuda)</td>
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<td>DIFC</td>
<td>Dubai International Financial Centre</td>
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<tr>
<td>D-SIFI</td>
<td>Domestic Systemically Important Financial Institution</td>
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<tr>
<td>EEA</td>
<td>European Economic Area</td>
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<td>EAC</td>
<td>East African Community</td>
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<td>EBS</td>
<td>Economic Balance Sheet</td>
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<td>EC</td>
<td>Economic Capital</td>
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<td>Enhanced Capital Requirement (Bermuda)</td>
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<td>EIOPA</td>
<td>European Insurance and Occupational Pensions Authority</td>
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<td>EMA</td>
<td>Europe, Middle East and Africa</td>
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<td>ERM</td>
<td>Enterprise Risk Management</td>
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<td>FAIR</td>
<td>Financial Advisory Industry Review</td>
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<td>FASB</td>
<td>Financial Accounting Standards Board</td>
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<td>FIDLEG</td>
<td>Swiss Financial Services Act</td>
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<td>FinCoNet</td>
<td>Financial Consumer Protection Organization</td>
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<td>Financial Markets Supervisory Authority (Switzerland)</td>
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<td>FIO</td>
<td>Federal Insurance Office (US)</td>
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<td>FLAOR</td>
<td>Forward Looking Assessment of Own Risks (Europe)</td>
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<td>FRB</td>
<td>Federal Reserve Board (US)</td>
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<td>Financial Services Authority</td>
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<td>FSAP</td>
<td>Financial Sector Assessment Program</td>
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<td>FSB</td>
<td>Financial Stability Board</td>
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<td>FSSC</td>
<td>Financial Stability Commission (Korea)</td>
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<td>FSV</td>
<td>Financial Supervisory Service (Korea)</td>
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<td>FSO</td>
<td>Fair Value through Other Comprehensive Income</td>
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<tr>
<td>FTVPL</td>
<td>Fair Value Through Profit or Loss</td>
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<td>G-SIIs</td>
<td>Globally Systemically Important Insurers</td>
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<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
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<td>GCC</td>
<td>Gulf Cooperation Council</td>
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<td>GCP</td>
<td>Group capital proposal</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<td>GICs</td>
<td>Guaranteed investment contracts</td>
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<td>HLA</td>
<td>Higher Loss Absorbency</td>
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<td>IAA</td>
<td>International Actuarial Association</td>
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<td>IAIGs</td>
<td>Internationally Active Insurance Groups</td>
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<td>International Association of Insurance Supervisors</td>
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<td>IASB</td>
<td>International Accounting Standards Board</td>
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<td>Abbreviation</td>
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<td>IBNR</td>
<td>Incurred but not reported</td>
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<td>ICAAP</td>
<td>Internal Capital Adequacy Assessment Process (Australia)</td>
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<td>ICs</td>
<td>Insurance capital standard</td>
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<td>ICS</td>
<td>Insurance capital standard</td>
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<td>IDD</td>
<td>Insurance Distribution Directive (Europe)</td>
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<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<td>Islamic Financial Services Act</td>
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<td>Independent Insurance Authority (Hong Kong)</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>Insurance Regulatory Authority (Kenya and Uganda)</td>
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<td>IRDA</td>
<td>Insurance Regulatory and Development Authority (India)</td>
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<td>ISO</td>
<td>Insurance Supervision Ordinance (Switzerland)</td>
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<td>ITS</td>
<td>Implementing technical standards (Europe)</td>
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<td>JFSA</td>
<td>Japan Financial Services Agency</td>
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<td>KSA</td>
<td>Kingdom of Saudi Arabia</td>
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<td>Life and General Insurance Capital (Australia)</td>
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<td>LISF</td>
<td>Insurance and Surety Institutions Law (Mexico)</td>
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<td>Monetary Authority of Singapore</td>
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<td>MCR</td>
<td>Minimum Capital Requirement</td>
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<td>MiFID</td>
<td>Markets in Financial Instruments directive (Europe)</td>
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<td>MMoU</td>
<td>IAIS Multilateral Memorandum of Understanding</td>
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<td>MOCE</td>
<td>Margin Over Current Estimate</td>
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<td>NAIC</td>
<td>National Association of Insurance Commissioners (US)</td>
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<td>NAICOM</td>
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<td>Namibia Financial Institutions Supervisory Authority</td>
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<td>NARAB</td>
<td>National Association of Registered Agents and Brokers Reform Act</td>
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<td>NBFIRA</td>
<td>Non-Bank Financial Institutions Regulatory Authority</td>
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<td>NIC</td>
<td>National Insurance Commission (Ghana)</td>
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<td>NTNI</td>
<td>Non-traditional non-insurance</td>
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<td>OCI</td>
<td>Office of the Commissioner of Insurance (Hong Kong)</td>
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<tr>
<td>OIC</td>
<td>Other Comprehensive Income</td>
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<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<td>OIC</td>
<td>Office of the Insurance Commission (Thailand)</td>
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<td>OJK</td>
<td>Indonesia Financial Services Authority</td>
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<td>ORSA</td>
<td>Own Risk and Solvency Assessment</td>
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<tr>
<td>OSFI</td>
<td>Office of the Superintendent of Financial Institutions (Canada)</td>
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<tr>
<td>PBR</td>
<td>Principles-based reserving</td>
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<tr>
<td>PCR</td>
<td>Prescribed Capital Requirement</td>
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<td>PDPA</td>
<td>Personal Data Protection Act (Singapore)</td>
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<td>PHIAC</td>
<td>Private Health Insurance Administration Council (Australia)</td>
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<td>PRA</td>
<td>Prudential Regulatory Authority (UK)</td>
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<td>PRIIPs</td>
<td>Packaged retail and insurance-based investment products (Europe)</td>
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<tr>
<td>QCB</td>
<td>Qatar Central Bank</td>
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<td>Qatar Financial Centre</td>
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<td>QFCRA</td>
<td>Qatar Financial Centre Regulatory Authority</td>
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<td>QIS</td>
<td>Quantitative Impact Studies</td>
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<td>Quantitative reporting templates</td>
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<td>RAF</td>
<td>Risk appetite framework</td>
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<td>RBC</td>
<td>Risk-Based Capital</td>
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<td>RBI</td>
<td>Reserve Bank of India</td>
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<td>RBNZ</td>
<td>Reserve Bank of New Zealand</td>
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<td>RDR</td>
<td>Retail distribution review (South Africa)</td>
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<td>RRP</td>
<td>Recovery and resolution plans</td>
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<td>SAM</td>
<td>Solvency Assessment and Management (South Africa)</td>
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<td>SAMOA</td>
<td>Saudi Arabia Monetary Agency</td>
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<td>SARB</td>
<td>South African Reserve Bank</td>
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<td>SCR</td>
<td>Solvency Capital Requirement</td>
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<td>SELIC</td>
<td>National Reference Interest Rate</td>
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<td>SFC</td>
<td>Securities and Futures Commission (Hong Kong)</td>
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<td>SMI</td>
<td>Solvency Modernization Initiative</td>
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<td>SRMP</td>
<td>Systemic risk management plan</td>
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<td>SSN</td>
<td>Superintendencia de Seguros de la Nación (Argentina)</td>
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<tr>
<td>SST</td>
<td>Swiss Solvency Test</td>
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<tr>
<td>STCL</td>
<td>Supervisory target capital level</td>
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<tr>
<td>SUSEP</td>
<td>Superintendence of Private Insurance (Brazil)</td>
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<tr>
<td>TCF</td>
<td>Treating Customers Fairly</td>
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<td>TIRA</td>
<td>Tanzania Insurance Regulatory Authority</td>
</tr>
<tr>
<td>TRIA</td>
<td>Terrorism Risk Insurance Act</td>
</tr>
<tr>
<td>TVaR</td>
<td>Tail value at risk</td>
</tr>
<tr>
<td>UAE</td>
<td>United Arab Emirates</td>
</tr>
<tr>
<td>UIC</td>
<td>Uganda Insurance Commission</td>
</tr>
<tr>
<td>USTR</td>
<td>US Trade Representative</td>
</tr>
<tr>
<td>VaR</td>
<td>Value at risk</td>
</tr>
</tbody>
</table>
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