Regional regulatory developments

Evolving Insurance Risk and Regulation
Chapter 3

July 2016

kpmg.com

Introduction

Regional Regulatory Developments is the third chapter in KPMG's 2016 *Evolving Insurance Risk and Regulation* report. It provides an overview of how major regulatory themes are being reflected in a number of regulatory regimes across the globe. The analysis covers 42 counties and considers how local insurance regulatory regimes are developing to comply with the international core principles (ICPs), as well as providing an overview of important prudential and conduct initiatives. The evolution of risk-based capital (RBC) regimes is a consistent theme.

The pace of regulatory evolution varies greatly across the globe. As the world becomes smaller thanks to technology, and where large firms operate across many jurisdictions, it is ever more important to understand the dynamics in each market – what risks are dominant in a particular region, and how national and international regulations are shaping the industry.

Throughout the Americas, insurance companies are addressing a dynamic, shifting domestic regulatory environment while adapting to international developments at the global and European levels. The focus remains on the consumer and meeting their insurance needs while protecting personal data.

In ASPAC there is an increasing regulatory focus on improving risk management frameworks and group-wide capabilities. In both Africa and the Middle East, there is a focus on ICP compliance and consumer education.

Within Europe, insurance regulation has seen the biggest evolution in decades, with Solvency II finally coming into force on 1 January 2016. Despite the UK voting to leave the EU in June 2016, the process will not commence before formal notification under Article 50 of the Lisbon Treaty is given. This appears unlikely to happen this year. Once triggered, there is an (extendable) two year negotiation process before formal exit will become effective. Until such time, the UK remains bound by all European legislation and able to benefit from the access to the single market that EU membership brings.

All regulatory developments across the globe bring challenges to insurers, requiring insurers to develop the necessary internal capabilities and risk management frameworks to comply with this new era of insurance regulation.

Table of contents

Evolving Insurance Risk and Regulation is an annual report published by KPMG International covering the key regulatory topics facing the Insurance industry. This report is in its sixth year of publication, and this year you will note, it is evolving to better reflect what is happening in the market, notably, adding "risk" to the title.

The first chapter, *International developments dominate regulatory change*, sets the tone for the major regulatory themes happening globally including the international core principles (ICPs), Comframe for internationally active insurance groups (IAIGs) and impacts on global systemically important insurers (G-SIIs).

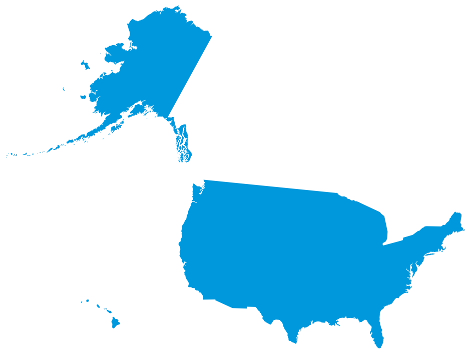
The second chapter, *Conduct risk: Increasing regulatory focus to align product, customer and value*, offers insights on industry developments by region with commentary on how regulators are driving change to align products and customers.

Additional chapters covering accounting, tax, and emerging risk will be published each month leading up to IAIS meeting in Paraguay in November 2016. Look for these reports at www.kpmg.com/eirr

Regional regulatory developments in the Americas

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.

North America



United States

The US regulatory system is globally unique due to the different roles of two federal entities and over 50 state bodies, which can make the legislative process challenging.

State insurance regulators have primary responsibility for insurance supervision. Their work is coordinated through 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 assessed yearly 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) exists within the US Department of Treasury (Treasury). It was created by the Dodd-Frank Wall Street Reform and Consumer Protection Act 2010 (commonly referred to as the Dodd-Frank Act). It has the authority to monitor all aspects of the insurance sector, representing the United States on prudential aspects of international insurance matters, including at the International Association of Insurance Supervisors (IAIS). It also advises on important national and international insurance issues, however, the FIO does not have any supervisory role, which remains with state regulators.

The Dodd-Frank Act also assigned to the Federal Reserve Board (FRB or Federal Reserve) consolidated oversight over any non-bank entity designated as systemically important (including, but not limited to, insurance companies) and any insurance holding company with a depository institution. The insurance groups for which the FRB is the consolidated supervisor hold approximately 25 percent of US insurance industry assets. In May 2016 the FRB announced a proposal for an insurance capital framework along with enhanced prudential standards for insurers that come under its supervision. It remains committed to collaborate on the capital regime with state insurance departments and other sector supervisors, while rejecting certain aspects of non-US insurance supervision.

Insurance Core Principle (ICP) compliance

Late in 2013, the Federal Reserve joined FIO and state insurance regulators from the NAIC as members of the IAIS.

The IAIS is responsible for developing and maintaining ICPs, which form the foundation for members' insurance supervision frameworks. Observance of compliance with this global framework is assessed through self-assessment, peer review and formal reviews conducted jointly by the International Monetary Fund (IMF) and the World Bank as part of their Financial Sector Assessment Program (FSAP) on financial regulatory systems in major jurisdictions.

The most recent FSAP for the United States was completed in 2015. It recognized improvements since the 2010 report, but identified a long list of important areas as needing additional improvement. These relate to objectives, powers and responsibilities of supervisors, supervisors' independence, accountability and

> "The first priority item for 2016 is to launch a domestic capital regime for the insurance companies that come under the supervision of the Federal Reserve."

resources, corporate governance, valuation and group-wide supervision.

The key recommendations included:

- Individual states should ensure that regulatory objectives do not include items such as the promotion of insurance business and affordability to a greater extent than the fair treatment of policyholders
- The election, appointment and dismissal processes for state-based commissioners lends itself to exposure from political influence
- Valuation standards should be changed to reflect better the economics of the products
- Solvency regulation should be extended to groups, including a US group capital assessment supervised either by the states or the Federal Reserve
- Neither group-level capital standards nor group-wide investment, market conduct and disclosure requirements exist for insurance groups supervised by state regulators or the Federal Reserve.

Towards the end of 2015, the NAIC's International Insurance Relations Committee adopted a plan to assign a number of these recommendations to NAIC sub-groups for US state regulators to consider recommendations appropriate for the US state-based system. In June 2016, the Federal Reserve started the process to begin requiring regulatory capital for insurance companies within its jurisdiction.

Prudential developments

Federal Reserve Board (FRB)

The FRB partners with the NAIC and the FIO to advocate for the development of international standards that best meet the needs of the US insurance market. The FRB acknowledges the development of international standards as important to helping improve financial stability and to providing a competitive playing field in an industry that is continuing to develop on a global basis. However it firmly believes that any standards developed by the IAIS must be consistent with applicable US state insurance laws.

In June 2016, the Board of Governors of the FRB exercised (for the first time) its Dodd-Frank Act supervisory authority regarding the insurance sector. The initiative took the form of two separate proposals: an advance notice of proposed rulemaking (ANPR) on regulatory capital and a notice of proposed rulemaking (NPR) on enhanced prudential standards. The proposals seek to rely as little as possible on insurers' internal models. The FRB indicates that it is working closely with insurers and state regulators on these proposals. Consultations on both the ANPR and the NPR close in August 2016.

Regulatory capital requirements

An ANPR requested a common framework for setting capital requirements for supervised insurance entities designated as systemically important financial institutions (SIFIs) and for insurers that own a depository institution[1], which are also overseen by the Federal Reserve. The ANPR proposes a two-tiered approach to regulatory capital for insurance companies:

- A consolidated approach (CA) for SIFIs and
- A building block approach (BBA) for the 12 insurers that own banks or thrifts.

Additionally, SIFIs will be subjected to stress tests, under the Notice of Proposed Rulemaking (NPR) regarding EPS measures, in order to determine minimum capital and liquidity requirements. However, while the ANPR indicates that the Federal Reserve will articulate stress testing requirements for the SIFIs, these are not specified in this paper because the Federal Reserve prefers first to set the regulatory capital framework. These two bases are discussed below:

- **Consolidated approach (CA) for SIFIs:**

  The CA will categorize the SIFI's assets and insurance liabilities into risk segments. Risk factors would then apply to the amounts in each segment to set a minimum ratio of consolidated capital resources to consolidated capital requirements. Neither the risk segments nor the risk factors have been specified in the ANPR, however the Federal Reserve has indicated that they will be tailored to the long-term nature of insurance liabilities and will not follow the capital measures developed for banks.

  The fully consolidated nature of the CA framework seeks expressly to deter the movement of assets among affiliates and to discourage regulatory arbitrage. Consolidation would be based on US Generally Accepted Accounting Principles (GAAP) with appropriate regulatory adjustments. If the insurer subject to CA supervision does not file under US GAAP, then a consolidated approach based on statutory accounting principles would need to be developed.

- **Building block approach (BBA) for insurers that own banks or thrifts:**

  The BBA would apply existing legal entity capital requirements for insurance companies, including those set by state and foreign insurance risk-based capital requirements. It would also apply bank risk-based capital standards for banking, non-insurance and unregulated entities. The aggregate capital would be set using a new FRB formula.

This approach follows closely the state insurance regulatory model by focusing on entity-level solvency. This will allow it to be implemented quickly without high implementation costs.

Once the consultation closes, the Federal Reserve anticipates issuing a NPR for capital frameworks and open for further comment before finalizing the rules and beginning implementation.

Enhanced prudential standards (EPS)

The enhanced prudential standards relate to liquidity, governance and risk management at insurance SIFIs[2].

The NPR proposes a set of qualitative governance standards and supplements these with proposals focused on stressed liquidity measurements. In addition, it would introduce specific liquidity risk management standards and liquidity stress-testing requirements with robust risk management oversight from the Board of Directors, risk committee and senior management.

The proposed liquidity stress testing framework parallels the liquidity measure applied to the banking sector, establishing a mandatory minimum buffer of highly liquid assets sufficient to meet projected net stressed cash outflows. However, it is substantially different from the liquidity coverage ratio rule applied to bank holding companies because it does not include FRB assumptions on surrender values and it uses a

much longer coverage period of 90 days (banks 30 days) in order to reflect the long-term nature of insurance liabilities.

SIFIs will be granted a phase-in period to comply with the EPS, which will be effective from the first day of the fifth quarter following the effective date of the proposal, with early adoption encouraged.

Principles based reserving for life insurance (PBR)

Having passed the state threshold required for implementation, PBR is expected to become effective from 1 January 2017 and will have a three-year implementation period. PBR replaces the current formulaic static approach to setting insurance reserves with a customized approach that more closely aligns with the actual risk profiles at individual firms. Some products will have increased reserves and others reduced levels, based on their risk profile. In addition to the new reserve valuation models, there are also new regulatory reporting structures to comply with.

Key areas that life insurers need to address are wider than just the valuation approach. Valuation system upgrades are likely to be needed and firms should assess whether changes are required to product profitability and design. The regulatory reporting will be more complex and there are expanded corporate governance expectations. In addition, links with US federal tax and Federal Reserve regulatory capital should not be overlooked. For insurers subject to Federal Reserve supervision, any PBR related changes in regulatory capital requirements will have a direct impact on federal-level regulatory capital requirements.

US group capital

Group capital requirements remain challenging for the US regulatory system to address. The NAIC is committed to working with US federal regulators in developing a group capital calculation. It also seeks to pair the NAIC efforts with the IAIS efforts in developing its insurance capital standard (ICS) standard.

During Spring 2016, the NAIC formed the group capital calculation working group, which is charged with developing a US insurance group capital calculation based on a risk-based capital (RBC) aggregation approach. The NAIC's objective is to create a framework that assists regulators in measuring group risks and to also work closely with the FRB in their capital developments.

The RBC aggregation approach will be based on legal entity capital requirements, rather than replacing or adding to current required standards. This approach is aimed at satisfying regulatory needs by being the most efficient and least costly process and preserving state regulation.

The NAIC has identified several key challenges in developing a group capital calculation[3]:

- Scope and scalability: The presumption by NAIC regulators and interested parties is that the approach would cover all legal entities within the group, including the holding company. The regulatory objective in establishing a group capital calculation is to provide an additional regulatory tool for US group supervision, giving state regulators a consolidated statutory accounting system and financial statements.

- Method for including non-RBC filers and non-insurance entities: A decision will need to be made on how to aggregate the legal entity capital requirements from other jurisdictions, as well as in relation to legal entities that have no existing RBC capital requirement.

- Going versus gone concern: US RBC results in a gone concern view of financial strength. Regulators will need to determine whether the group capital calculation should adopt a similar conservative view or whether greater emphasis should be placed on the going concern.

- Treatment of subordinated debt: Although accounted for as a liability issuing party, contractually subordinated debt can sometimes be regarded as a form of capital. Regulators will need to decide how much to allow and also whether an element of holding company senior debt could be considered as available group capital.

- Eliminations to avoid double counting and other adjustments: Ownership in subsidiary, controlled and affiliated companies will need to be reviewed for potential elimination.

- Stress testing: The use of stress testing in a group capital calculation will be determined.

At the international level, the NAIC ComFrame development and analysis working group (CDAWG) has been reviewing and contributing to the IAIS discussions regarding the development of a global ICS. At a recent meeting in June 2016, the group focused on the key issues of the NAIC's preferred treatment for surplus notes, senior debt, and contract boundaries to help with future IAIS capital discussions.

Financial Stability Oversight Council (FSOC): SIFI classification revoked

FSOC was created under the Dodd-Frank Act in the US in response to the global financial crisis of 2008. It has the power to classify insurers as SIFIs which makes them subject to enhanced regulation by the Federal Reserve. MetLife was first classified by FSOC as a SIFI in December 2014, but has since appealed this decision . In April 2016, the district court ruled in favor of the company and overturned their SIFI designation on the following grounds:

- In arriving at its conclusion to designate the company as a SIFI, FSOC had not followed its own guidance and had acted arbitrarily and

- FSOC had failed to consider the costs to MetLife resulting from the SIFI designation.

The case is the first judicial challenge to the FSOC's authority with respect to SIFI designations. The Treasury Secretary issued a lengthy statement condemning the judicial decision and the Department of Justice filed an appeal on 16 June 2016.

At a global level, the Financial Stability Board (FSB) has designated nine insurers as being global systemically important insurers (G-SIIs), of which three are (or were) US SIFIs. As the FSB used a clearly stated methodology developed by the IAIS for its SIFI designations, it is unclear how a decision to revoke a US SIFI status will interact with its G-SII assessment. Technically, the FSB has no legal personality and its designations do not carry the force of law unless and until its members take action consistent with its pronouncements. Conversely, the FSB has no process for recognizing domestic judicial determinations. The final judicial decision post appeal could therefore raise questions about the appropriateness of the group's G-SII status and the process or reasoning used by the FSB in arriving at the G-SII assessment.

Impact of Solvency II

The European Union (EU)'s Solvency II regime introduces challenges for US insurers competing for business within the EU. The US was granted provisional equivalence status by the EU in 2015, applicable to the treatment of US insurers within Solvency II's group solvency calculation. However, the provisional equivalence status does not relate to the recognition of US reinsurers conducting business in Europe nor does it enable European

supervisors to rely on US group supervision.

The lack of equivalence generates a number of practical challenges for US insurance groups operating in Europe, particularly with respect to reinsurance. Consequently, EU member states may continue to apply existing local practices, including with respect to collateral arrangements. A positive equivalence assessment would require US reinsurers to be treated in the same manner as European reinsurance arrangements. The absence of a group supervision equivalence assessment has resulted in some US groups being required to establish EU sub-groups. Some other US groups also feel that some of the requirements imposed on them under Solvency II's "other methods" approach to worldwide group supervision are intrusive and unreasonable.

US regulators hope that an alternative to the EU equivalence assessment would be to negotiate a bilateral "covered agreement" regarding group supervision and insurance, allowing US insurance groups to compete equally with EU groups without requiring a formal equivalence determination. Negotiations between the Secretary of the Treasury (working through the FIO) and the Office of the United States Trade Representative (USTR) with the EU began in February 2016 to establish such a covered agreement.

Corporate Governance

For those insurance groups domiciled in states that have adopted the NAIC's Corporate Governance Model Act (Model Act), the first reports were due in June 2016. Currently five states have enacted laws consistent with provisions of the model and the NAIC reports that seven more states are considering enacting substantially similar provisions.

The Model Act requires a company to file a corporate governance annual disclosure on a yearly basis which covers monitoring, oversight and governance arrangements. The Model Act will provide a much more comprehensive overview of board operations than has previously been performed by state regulators. It will also provide information regarding the policies and practices of the board of directors and key committees. Insurers should be prepared to report an increased level of detail on corporate governance procedures prior to their states' adoption of the Model Act.

Conduct of business and consumer protection

In the United States, there is no comprehensive national law regulating the collection and use of personal data. Rather, the framework for best practice includes a broad range of federal and state laws, with market conduct issues being part of state level regulation and legislation.

Since the 2008 global financial crisis, state regulators and legislators have focused on the structure and protections of the financial regulatory system. Increased attention has been placed on the efficiency and effectiveness of financial or prudential supervision. However, more recently, regulators have been paying more attention to consumer protection, including market regulation and oversight of company conduct.

In 2015, the NAIC's cyber security task force was established and it adopted Principles for Effective Cybersecurity and a Roadmap for Cybersecurity Consumer Protections, both of which have implications for insurance company interactions with their customers. During 2016, it issued a draft Insurance Data Security Model Law, which imposes requirements on insurance companies regarding their protection of confidential personal data stored. Further, the Office of the President released a discussion draft of a Consumer Privacy Bill of Rights in 2016 that establishes baseline protections for individual privacy in the commercial arena, which will include insurance.

Retirement security in the United States remains an area of focus, with various initiatives to improve consumer education. During 2015, the NAIC's Executive Committee adopted Guidance for the Financial Solvency and Market Conduct Regulation of Insurers Who Offer Contingent Deferred Annuities, aimed at assisting state regulators in modifying their annuity laws to clarify their applicability to contingent deferred annuities. The adoption of the guidance document is seen as a positive development in consumer disclosure.

US Department of Labor (DOL)

Heightened attention is being given to retail investment products and services, in particular retirement accounts. Regulators are keenly focused on customer treatment and customer outcomes, as well as companies' efforts to place the best interest of customers at the core of their business strategies. The stated intent is consumer protection and this will be factored into regulatory assessments of compliance and new product and service offerings.

In April 2015, DOL released a proposed rule that would expand the types of retirement investment advice covered by the fiduciary protections of the Employee Retirement Income Security Act 1974 (ERISA). The proposal presented various measures to better educate consumers about retirement savings products and to protect them against inappropriate sales practices.

The DOL Employee Benefits Security Administration released a final rule in April 2016 that redefines fiduciary investment advice with respect to many retirement programs and individual retirement arrangements. A fiduciary now includes anyone who receives compensation for providing individualized retirement investment advice, or for advice specifically directed to an employee benefit plan, plan fiduciary, plan participant or beneficiary. Any transaction in which a financial advisor has a conflict of interest is prohibited, unless the advisor holds a Prohibited Transaction Exemption (PTE).

The most significant PTE is the Best Interest Contract Exemption (BICE) which allows certain conflicted transactions to proceed under certain conditions. The BICE requires that potential clients sign a contract, except the contract is not required for ERISA participants or prior to an advisor's recommendations. The fiduciary rule restricts certain forms of compensation, including commissions and revenue sharing, unless they are offered subject to the BICE.

Anticipated DOL rule effects on the insurance industry are as follows:

- Variable annuity writers: lower sales, reduced fees and/or improvements to guarantees, restructuring of existing commission structures and product providers offering alternative types of products that are treated differently

- Retirement plan administrators: increased compliance costs and disclosures and difficulty in providing advice to plan participants and soliciting rollover business

- Proprietary product offerings: Adverse effects on insurers offering proprietary products in retirement plans. BICE requires a diversification of offerings, though the final rule provides specific guidance regarding how product providers can satisfy the BICE.

The impact of the rule will be significant, even if all the stated exemptions are utilized.

Bermuda

"The wholesale nature of the market in Bermuda has also allowed the BMA to enhance its framework in the knowledge that the policyholders are, largely, experienced and competent bodies who need comparatively less protection than individual policyholders."

Six years of efforts by the Bermuda Monetary Authority (BMA) were rewarded late in 2015 with news of the European Commission's recognition of full equivalence to Solvency II of Bermuda's prudential framework, for the areas where it was sought. The decision has not only provided regulatory certainty for the large number of commercial reinsurers that transact with Europe on a daily basis, it also confirmed the status quo for the captive and Special Purpose Insurer (SPI) market.

The substantial changes effected by the BMA that led to this decision have helped to cement Bermuda not only as a global reinsurance hub, but also the leading jurisdiction globally in the growing alternative capital and Insurance Linked Securities (ILS) market.

ICP compliance

The BMA has long sought to be at the forefront of the shift in regulatory thinking and has been prominent in leading the IAIS reinsurance task force. The wholesale nature of the market in Bermuda has also allowed the BMA to enhance its framework in the knowledge that the policyholders are, largely, experienced and competent bodies who need comparatively less protection than individual policyholders. This has allowed the BMA to develop a risk-based capital framework and supporting disclosures that are fit for purpose and do not provide an unnecessarily onerous burden on the market. Similarly, companies' risk management practices were generally already well evolved and therefore the framework changes in this area have reflected the BMA seeking to gain more comfort from companies' own practices, rather than imposing significant new requirements.

With the final prudential developments planned for introduction in 2016, the BMA's focus will now shift to ensuring that their supervisory team possesses the skills and tools necessary to effectively supervise under the new regime.

Prudential developments

While the regulatory burden has been increasing for some time on commercial insurers, the captive and SPI market has been relatively unaffected. The confirmation that these two markets can be viewed differently from a supervisory perspective is testament to the BMA's efforts in introducing a regime that is truly proportional to the risks of each insurance company.

Implementation of an Economic Balance Sheet (EBS) framework has continued over the course of 2015, with a trial run conducted using 2014 year-end data, a further mandatory trial run conducted using 2015 year-end data and final legislation expected to be enacted later in 2016. This approach aligns the risk-based capital calculation with an economic view of capital, in contrast to the existing GAAP-based view with prudential filters.

The BMA is expected to eventually remove the current statutory basis of financial reporting in favor of this economic approach, although the timetable for this has not yet been announced. Trial run results to date have indicated only modest changes in solvency ratios, with increases for insurance groups and some long-term

insurers, and no breaches of target capital levels by participants as a result of the proposed approach. The guidance is therefore not expected to change significantly prior to final legislation being passed.

Existing requirements for an approved actuary to opine on the sufficiency of reserves will be replaced by a requirement for an actuary to opine on the reasonableness of the best estimate element of the technical provisions in the EBS, together with confirmation that the risk margin has been evaluated in line with the legislative requirements. This is based on the expectation that the EBS will not be subject to audit.

The BMA's final major framework enhancement will be implemented for the 2016 year-end. This will require commercial insurers to publish a Financial Condition Report (FCR) outlining their business and performance, governance structure, risk profile, solvency valuation, capital management and subsequent events.

Although audited financial statements have been made public for some time, the FCR is the final element that aligns the BMA's framework to the three pillars of Solvency II. Although many insurers are part of a public company group, disclosures at the insurance entity level will reflect substantially more publicly available information than has historically been the case, providing companies and other jurisdictions with the ability to analyze the Bermuda market in a manner which is not possible for many other countries.

The BMA has also introduced guidance, effective from January 2016, that requires commercial insurers to maintain a 'head office' presence in Bermuda. The requirements are broadly based and include elements around location of board meetings, presence of directors and executives, and where key decision making occurs. Insurers that have typically used branch structures to conduct much of their business outside Bermuda, or have used insurance managers for day-to-day functions. These companies are having to consider whether to move some of their executive functions to Bermuda, or at least to hold more of their key strategic or underwriting meetings on the island.

In a similar vein, the Insurance Code of Conduct was amended during 2015 to reflect the more substantial oversight role that the BMA believes insurers should be playing with respect to outsourced service providers. These providers often fulfil extensive roles for many insurers and therefore the importance of the board's oversight role has been emphasized through the latest changes.

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.

The BMA adopts a risk-based supervisory process, which involves more rigorous scrutiny and more onerous requirements where material amounts of business are transacted with unrelated parties. Given that many of the policyholders are themselves large organizations, there is an expectation that they are sufficiently expert and sophisticated to be reasonably expected to understand and judge the underlying risks, and to determine their degree of tolerance for them.

Canada

In Canada, the life insurance market is heavily concentrated with three large multi-national Canadian insurance groups together with two other significant domestic groups taking a dominant share of the market. The major banks also retain a presence in the life insurance market. The property and casualty industry, while much less concentrated at present, is following the same trend of increased concentration as the industry responds to competitive pressures including digital challenges. Recent legislative changes now enable mutual property and casualty (P&C) companies to demutualize, but this is likely to have a limited uptake because of the complexity and costs involved and the requirement for demutualized P&C insurers to be widely-held at the conclusion of the process.

ICP compliance

Canadian insurance regulators have been active participants in the IAIS and have generally adopted the ICPs, as reflected in the high level of compliance with the ICPs reported in the IMF's FSAP review reports released in early 2014.

Regulators continue to strengthen local regulatory practices and 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 other 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, and Quebec is adopting an ORSA requirement for the insurers domiciled in that province.

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

Prudential developments

Own Risk and Solvency Assessment (ORSA)

OSFI's vision for future prudential supervision is broadly aligned to the ICPs already. Canada implemented ORSA requirements in 2014, and 2015 was the second year of reporting. The degree of familiarity and use especially amongst larger insurers has continued to increase, and the ORSA is becoming more central to the risk management, monitoring and governance processes for many insurers.

The requirement for an ORSA has also been spreading to provincial jurisdictions, with insurers domiciled in Alberta, British Columbia and Quebec becoming subject to this requirement in 2015 and 2016, and with some other provinces expected to follow.

Capital Regime

OSFI and the life insurance industry continue to work towards a new capital regime to replace the current Minimum Continuing Capital and Surplus Requirement (MCCSR) for life insurance companies and the related Test of Adequacy of Assets Maintained in Canada (TAAM) applicable to branches of foreign companies.

After a series of detailed Quantitative Impact Studies with the industry, in late March 2016, OSFI released the new Life Insurance Capital Adequacy Test (LICAT) for public consultation. The proposed LICAT reflects more advanced techniques to measure credit, market, insurance and operational risks, improved measurement of the risks of risk-sharing (i.e. participating and adjustable) insurance products, as well as credits for risk diversification within insurance risks and between asset and insurance risks. In addition to the standard model, the LICAT provides for the optional use of internal models for segregated fund market guarantees, subject to regulatory approval. The new LICAT is intended to apply from 1 January 2018.

A similar approach is being adopted for the P&C industry where OSFI is working with the industry regarding how to model the various relevant risks, with a view to release model guidance for industry consultation by 2017. OSFI expects internal models might be used in 2018 with a three year parallel run.

Operational Risk

In August 2015, OSFI published draft *Guideline E-21 Operational Risk Management* for federally-regulated financial institutions (FRFIs). It applies to all FRFIs, including insurance companies, with the exception of branch operations of foreign banks and foreign insurance companies. The Guideline communicates OSFI's expectation that FRFIs establish and maintain an enterprise-wide framework of operational risk management controls.

The Guideline addresses four principles that: (a) are consistent with the framework set out in OSFI's Supervisory Framework, and its Corporate Governance Guideline, (b) are designed to promote best practices, and (c) reflect international standards.

The four principles informing a FRFI's approach to operational risk management are as follows:

- **Principle 1:** Operational risk management (ORM) is integrated within the FRFI's overall risk management framework and appropriately documented
- **Principle 2:** ORM supports the FRFI's overall corporate governance structure, and includes an operational risk statement
- **Principle 3:** Ensure effective accountability of ORM such as the "three lines of defense approach" which serves to separate the key practices of ORM and provide adequate independent overview and challenge
- **Principle 4:** Through appropriate ORM tools, FRFIs identify and assess their operational risk and are able to collect operational risk information for communication both internally and to supervisory authorities.

The Guideline is intended to consolidate existing guidance and thus simplify the governance process

for FRFIs. FRFIs will likely find that it significantly expands, rather than streamlines, their obligations in respect of risk management.

Conduct of business and consumer protection

Canadian insurers have generally not had to confront major levels of consumer complaints or the "loss of trust" issues prevalent in other jurisdictions in recent years. However, the influence of international standards developments, driven by the ICPs, has not stopped with corporate governance, risk management and capital regulation. Provincial regulators are actively considering more demanding requirements, and placing greater onus on insurers to ensure good results for consumers.

ICPs

In general, Canadian consumer protection measures have tended to emphasize clear and complete product disclosures, along with ensuring that insurers can deliver on the promises that they have made to consumers. Historically there was less focus on value for money and clarity of costs of the product, but this is starting to change as regulators look to developments in other markets.

The ICPs for Intermediaries (ICP 18) and Conduct of Business (ICP 19), 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.

The insurance industry is also responding to these trends by pushing improvements in their own standards and disclosures. For example, the Canadian Life and Health Insurance Association (CLHIA) issued a policy paper in March 2016 entitled *Insurance Distribution in Canada: Promoting a Customer-Focused System.* Given the global focus on managing market conduct risks and treating customers fairly, the paper makes a number of recommendations to further improve Canada's market conduct regulation and industry practices, including:

- Greater standardization of regulatory approaches, such as a common code of practice and an insurance council model across the country;
- Better documentation around the need for analysis and how a product meets a customer's needs; and
- Improved ongoing service standards.

Auto insurance

Auto insurance continues to be a contentious area 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. In addition to the three provinces with monopoly government insurance schemes for auto insurance, automobile insurance pricing is subject to regulatory approval in some other provinces.

In Ontario, the largest province, auto insurance rates have been mandated to decrease significantly, coupled with some legislative initiatives aimed at reducing claims costs for insurers. The Ontario Superintendent of Financial Services made a series of recommendations in the *Superintendent's Report on the Three Year Review of Automobile Insurance, 2014* (modified July 31, 2015) for further reforms to contribute to the affordability and appropriate functioning of the system.

Flood insurance

Limitations on insurance coverage for flood losses has also become a more prominent consumer issue, as a result of some larger flooding events in the last few years which highlighted gaps between consumer expectations and the actual extent of coverage under normal insurance policies. In addition to the technical and legal insurance issues, these events have raised consciousness of the risks among consumers to some degree, and of the need for greater government initiatives to mitigate vulnerabilities to flooding.

Latin America

Argentina

Argentina was marked by the presidential elections in 2015, and the insurance market was not unaffected by this. The elections showed a desire for change, which will lead to deep reforms to the policies implemented over recent years. Economically, the new government will face a number of challenges, including in relation to tax and inflation which will directly impact key economic variables important to the insurance sector.

The number of companies and variety of products offered did not change significantly over 2015, with inflation driving both growth in premiums and in the cost of loss experience. However, the insurance market has started 2016 with optimism and growth projections. Considerable increases are estimated in brokerage, as well as increases in financial income due to higher interest rates and improvements in bond yields.

ICP compliance

Argentina is a member of the IAIS. The Argentine Insurance Regulator (Superintendencia de Seguros de la Nación (SSN)) is the body responsible for regulating the insurance activity in Argentina and ensuring compliance with the ICPs. It does this through the issuance of technical, accounting and administrative standards. SSN is a public body accountable to the Ministry of Economy and Public Finance.

The main issues to be faced by the insurance industry are as follows:

- Problems derived from inflation and inflation control
- Lack of tax incentives for life and retirement insurance
- Significant increase in loss experience in workers' compensation insurance.

Prudential developments

The new authorities of the SSN have defined the main issues of their administration as follows:

- The SSN will redefine its duties towards a more technical and professional profile, focused on higher control over the solvency of insurance companies, mainly engaged in monitoring and overseeing insurance companies
- Foster best practices
- Avoid insurance monopolies
- Analyze a possible tariff adjustment to high volume products, such as motor insurance, due to the effect of inflation
- Analyze matters related to the valuation of assets and liabilities in general
- Analyze specific issues relating to workers' compensation and life insurance

Conduct of business and consumer protection

Beyond political changes, the new administration should emphasize the promotion of insurance awareness in general, in order to increase the penetration rate of different products.

Insurance agents and brokers are the primary distribution channel for Argentina insurers, although bancassurance continues to grow as an alternative distribution channel (principally for life, motor and personal accident lines).

Although all the insurance brokers must be registered with the SSN to conduct business, they are not monitored by the regulator in the same way as insurance companies. However, banks which sell insurance products do have to comply with regulations which require them to:

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

Moreover, consumer protection is on the agenda of the new administration, in order to develop and modernize this area. A general review and a proper implementation and disclosure plan are required.

Brazil

Despite relevant economic challenges, with reduced revenue growth rates and increasing inflation, Brazil remains the largest insurance market in Latin America. The market continues to be dominated by bancassurers, supplemented by national and international insurance companies, with no significant changes to the top ten insurance groups.

Travel insurance saw the highest growth rate, with Brazilians also seeing health insurance as a desirable product. Currently, only 25 per cent of the population have a health plan or insurance, but this has the potential to grow. Brazil is very aware of the need to acquire protection for personal risk which can be a potential market driver.

According to recent analysis, the insurance sector will continue to remain attractive, but it must address strategic themes to differentiate insurance offerings, protect profitability and take action in the areas of customer needs and loyalty, innovative products, technology, innovation and attractiveness to the millennial generation.

The main insurance regulators are the Superintendence of Private Insurance (SUSEP) for insurance and The National Health Agency (ANS) for health insurance.

ICP compliance

SUSEP continually seeks adherence to the basic insurance principles set out in the ICPs. The regulator developed internal groups with a mission to collect information that enables it to take action, resulting in a greater adherence to those principles. A specific technical group was created to follow the discussions within the subcommittees of the IAIS, seeking a better resolution to the principles not yet fully compliant, notably in the areas of group supervision and ORSA. Recently, SUSEP released a new rule about risk management, which is in line with ICP 16.

In 2015, SUSEP obtained provisional equivalence under Solvency II model, recognizing its solo solvency supervision. SUSEP also became part of the Technical Committee and Financial Stability team at the IAIS. This participation will allow the effective defense of Brazil's interests in discussions concerning the regulation and supervision of international insurance markets. Additionally, in April 2015, SUSEP joined the Board of Insurance Supervisors Association of Latin America (Assal).

Prudential developments

Relevant standards issued recently aim to regulate the solvency capital regime. These cover themes such as the enterprise risk management (ERM) model, operational risk database, technical provisions, assets reducing the technical provision coverage requirement, underwriting, credit, operational and market risk capital, adjusted net equity, minimum capital requirement, solvency regularization plan, retention limits and criteria covering investments, accounting standards, requirements for an independent actuarial audit in addition to a bi-annual audit of the financial statements and a requirement for an audit committees. These apply to insurance companies, open private pension entities and reinsurers.

As part of this plan, the first phase of the regulatory framework for a risk based capital calculation based on operational risk has been completed. The deadline for completion of the design and implementation of an operational loss database is August 2017.

SUSEP also published a rule requiring insurers to implement a risk management structure that is proportionate to their risk exposure and compatible with the nature, scale and complexity of their operations and aligned with their internal controls system. Exposures to risks should be assessed at least annually by a firm's directors and whenever there is significant change in its risk profile.

As part of its ongoing development plan, SUSEP includes the following topics for discussion on its agenda for 2016:

- Development of a new chart of accounts
- Bi-monthly or quarterly submission of periodic information
- Equity assessment - Economic
- Technical provisions, with emphasis on the added value which would reduce liabilities obtained in ALM
- Provisions of Actuarial Standards Board (CPA)
- End of paper documents
- ORSA
- Review of Life Underwriting Risk Capital Models and Credit
- Assess the implementation of an Ultimate Forward Rate (UFR) in the calculation of the Term Structure of Interest Rates
- Shielding assets.

In May 2015, ANS issued a Normative Instruction establishing criteria and guidelines to replace the calculation of the risk based solvency margin for health insurance providers. During 2016, it has also been requiring new procedures for economic and financial adequacy and determining its approach to economic and financial monitoring in order to preserve the health of the market.

Conduct of business and consumer protection

Customer protection is a significant concern for SUSEP, as evidenced by the tightening of regulations around extended guarantee insurance (which is often sold with electro-domestic products). This included requirements for specific risk coverage, a defined period in which the customer can cancel their insurance coverage and requirements regarding the information that must be given to the client.

On health insurance, ANS has created new regulations in order to improve the quality of customer/beneficiaries care. Normative Resolution (RN) 395/2015 entered into force in May 2015, establishing deadlines for providing information to the consumer, disciplining and qualifying service and requiring operators to provide different customer contact channels.

Chile

In accordance with international experience and recommendations, the Superintendencia de Valores y Seguros (SVS) (or Superintendence of Securities and Insurance of Chile) is modernizing its supervision model, migrating its monitoring system from a regulatory approach to a risk-based supervision model.

ICP compliance

Chile is a member of the IAIS but is not subject to the mandatory FSAP reviews regarding ICP compliance. However, the SVS does aim to follow international trends and best practices and modernizes its regulatory requirements/approach to comply with these.

Prudential developments

SVS expects insurance companies to have effective corporate governance arrangements, efficient risk management systems, good market conduct standards and an appropriate internal control environment. It encourages insurance companies to work under a preventive approach with a focus on:

- **Solvency:** having sufficient financial resources to fulfil all of its obligations
- **Monitoring:** setting quantitative and qualitative requirements based on their own risk exposure, volume and complexity of business, strategy and organizational culture
- **Acting:** having a comprehensive proposal plan to control and mitigate risks.

As part of its commitment to positioning itself as a strong supervisory body, the SVS recently published a new regulation setting out three important aspects that a board of directors should establish as part of an effective risk management system. Firms are required to establish:

- A self-assessment report of corporate governance principles (due September 2016)
- An ORSA process (the ORSA report is due September 2017)
- A risk appetite statement, including both capital allocation policy and roles and responsibilities of the board of directors and senior management.

These are seen as big challenges for firms and the insurance market is already starting to work on these new requirements, with an air of nervousness seen amongst some chief risk officers. Senior management will need to quickly understand how to complete the first ORSA without duplicating other processes. All insurance employees are learning that risk culture is the new vision and priority.

Conduct of business and consumer protection

There has been no significant developments in this area over the last 12 months.

Regional regulatory developments in Asia Pacific (ASPAC) region

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.

Australia

The Australian insurance market comprises the life, health and general insurance sectors. The life sector has performed strongly over recent years, with increasing profitability generally attributed to improvement in lapse rates, product re-pricing and increasing focus on claims management. By contrast, general insurers faced tough conditions, driven by a number of factors including continued competitive pressures on premium rates and frequent natural catastrophes, with five being declared in the year to June 2015. These pressures were offset to some extent by improving investment returns.

The private health insurance sector is becoming an increasingly competitive environment, particularly as a result of online comparison websites which are making it easier for policyholders to switch between companies. There are currently 33 registered health funds, with the market heavily dominated by larger players. The sector has been impacted by a gradually ageing population, with low wage growth making customers price sensitive to increases in premium rates.

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

Life Insurance

Following the Review of Retail Life Insurance Advice report issued by John Trowbridge in March 2015, the final package of reforms relating to mandated advisor remuneration within the life insurance industry is expected to commence on 1 July 2016 (subject to the passing of legislation). This is expected to apply to personal and general advice, which includes direct sales channels. There will be a gradual phasing down of upfront commissions through a cap applied, as a percentage of premium, to upfront commissions. The cap will be:

- 80 per cent from 1 July 2016
- 70 per cent from 1 July 2017
- 60 per cent from 1 July 2018.

In addition, there will be a maximum renewal commission cap of 20 per cent of premiums.

The reform package will also include a two year commission clawback period in respect of initial commission which is expected to be as follows:

- 100 per cent of the commission on the first year's premium if the policy lapses in the first year of the policy
- 60 per cent if the policy lapses in the second year of the policy.

Further, the Government is proposing a ban on other volume based payments and will grandfather existing arrangements. There are no proposed restrictions in respect of level commission (where first year and ongoing rate are set at the same percentage).

The Australian Securities & Investments Commission (ASIC) will monitor the level of replacement business in the industry through an

"General insurers face tough conditions, driven by a number of factors including continued competitive pressures on premium rates and frequent natural catastrophes..."

industry lapse study to ensure that the level of replacement business in the industry is reducing.

Health Insurance

From 1 July 2015, the regulator of the health insurance industry effectively changed from The Private Health Insurance Administration Council (PHIAC) to the Australian Prudential Regulation Authority (APRA), adding to its role as regulator of the banking, life and non-life insurance industries. This change has caused concern amongst industry participants around what potential implications this may have on the regulatory framework currently applying to the health sector.

In particular, insurers are concerned about:

- Changes to risk management and governance structures
- Higher capital levels or changes to existing capital definitions
- Changes to the risk equalization rules and
- Standardization of regulatory framework across life, non-life and health insurance.

Risk management is currently an area of weakness for many private health funds. PHIAC did not require a risk management function, but APRA requires this for life and non-life insurers. The challenge for most health insurers will be a potential lack of scale to deal with developing this function if it becomes mandated by APRA. Further, there is potential for APRA to implement an Internal Capital Adequacy Assessment Process (ICAAP) regime or apply Prudential Standard CPS 220 on Risk Management to health insurers.

Conduct of Business and Consumer Protection

Insurers are facing emerging regulatory challenges in relation to customer treatment and outcomes. The financial services industry has witnessed a number of specific issues over recent years including mis-selling of financial products, misalignment in remuneration structures between advisors and the customer, poor product design that fails to deliver customer value, and recently, cultural issues leading to unethical insurance claims practices.

In December 2014, the Australian government released its final report following the Financial System Inquiry (FSI). This focussed on:

- Disclosure to consumers
- Competition
- Underinsurance, particularly in areas prone to natural disaster.

The report recommended an increase in disclosure of the replacement value of home and contents in insurance policies to assist customers in understanding and determining an appropriate insurance sum. The aim is to try and address consumer awareness of underinsurance.

The Turnbull Government's response to the FSI has provided renewed focus on measures to improve consumer outcomes, particularly in relation to providing confidence in the wider financial system and ensuring consumers are treated fairly.

The government also intends to require professional standards for financial advisers and to introduce legislation which will enshrine new product design and distribution obligations. This would make issuers and distributers of financial products formally accountable for product offerings and communications.

Australian Competition and Consumer Commission (ACCC)

The ACCC released its annual report into the Private Health insurance market in late 2015, covering the period from 1 July 2013 to 30 June 2014. The ACCC made three key findings relevant to the sector:

- Health insurance policies are too complex and this is creating difficulties for consumers to compare products across companies and make informed choices about their future medical needs.
- The current regulatory setting places an emphasis on purchasing private health insurance as a means to reduce policyholders' tax liabilities, rather than on the value provided by health insurance. There are also increasing policy exclusions and limitations applied to policies to maintain affordability of premium rates, leading to the risk of unexpected out of pocket expenses.
- Current practices by some health insurers are at risk of breaching consumer laws.

China

"The industrial average solvency ratio has been relatively stable over the quarters and the transition from the existing solvency regime to C-ROSS has been smooth."

2015 is a year of regulatory transformation in China: from scale oriented to risk oriented; from isolated regulatory regime to comprehensive solvency regime and from authority driven to market driven.

The industry focus is on the trial run of the new solvency regime (China Risk Oriented Solvency System (C-ROSS)). Submission of solvency reports under C-ROSS is now required for all insurance companies and insurance groups. The industrial average solvency ratio has been relatively stable over the quarters and the transition from the existing solvency regime to C-ROSS has been smooth. Around a third of insurance companies' solvency ratios increased, with large insurance companies/groups have benefited from the transition.

Retirement and its related insurance business and healthcare insurance have become two emerging insurance business lines due to the "National Ten" policies issued in 2014. The insurance regulator (China Insurance Regulatory Commission (CIRC)) issued tax incentive guidelines for healthcare insurance business in August 2015. The retirement related insurance business has not progressed as expected, but KPMG member firms have seen foreign players interested in this area and are trying to secure the necessary licenses to enable them to carry out this business in the Chinese market.

ICP compliance

The last FSAP assessment took place in 2011, which highlighted significant areas for development, which CIRC has been addressing.

In April 2015, Standing Committee of the National People's Congress approved a number of changes to insurance law, being the first time such change since 2009. The main changes focused on simplifying administrative approval processes, for example cancelling the approval requirements for Chinese insurance companies setting up representative offices overseas and cancelling the certificate requirements for insurance sales agencies. This enables CIRC to implement the government's "streamline administration and delegate power" requirements.

Prudential developments

In February 2015, CIRC officially published the new Solvency Standards (C-ROSS) and the industry has been required to prepare and submit new solvency reports under the new Standards from the first quarter of 2015.

The 17 sets of Standards form a risk-oriented solvency regime built over three pillars – quantitative risk assessment, qualitative risk assessment and disclosure requirements. The regime adopts a standard formula based approach, with different characteristic factors to reflect the features of different companies. Pillar 2 qualitative risk assessment is mainly regulatory driven in order to raise the risk management standards in a relatively short time period.

An interesting feature of C-ROSS is that it combines the financial reporting with the solvency capital requirements. This enables the management team to make decisions based upon the same principles, preventing the need to deal with conflicts between solvency systems and the financial reporting system.

Conduct of business and consumer protection

In February 2015, CIRC issued a notice to highlight its key focus on insurance consumer protection, which covered mis-selling, improvements in insurance services, information disclosure and insurance creditability system (2015-2020) plan. This was followed by a Working Plan by CIRC and State Development and Reformation Commission in July 2015 on establishing China's Insurance Creditability System. This laid out a plan to establish a creditability assessment system on product development, insurance sales, insurance services and insurance asset management.

In July 2015, CIRC also published a trial Guidance Note on insurance company service assessment, which intends to rate all insurance companies (parent only) a rating between AAA (highest) to D (lowest).

Hong Kong

2015 is a year of step change for the Hong Kong regulatory regime.

The Insurance Companies (Amendment) Bill 2014 (the Bill) was passed at the Legislative Council in July 2015. This is a key milestone in the Hong Kong insurance regulatory reform, enabling the establishment of an Independent Insurance Authority (IIA) to replace the Office of the Commissioner of Insurance (OCI) as the insurance regulator. The IIA will be responsible for the supervision of insurers and insurance intermediaries, including their financial stability and sales conduct. As a financially and operationally independent body, it will be in a stronger position to supervise and regulate the market.

The IIA will be established in three phases:

- **Phase 1:** for the establishment of a Provisional Insurance Authority with an independent board was enacted in December 2015
- **Phase 2:** for the formal establishment of the IIA with enhanced regulatory power is expected to be completed by the end of 2016
- **Phase 3:** for the licensing and supervision of the insurance intermediaries will likely to become effective by the end of 2017.

As there are no foreign ownership restrictions in Hong Kong, the insurance market continues to be dominated by global insurance groups with Hong Kong as the regional hub.

ICP compliance

The last FSAP review by the IMF in 2014 indicated a high level of observance of ICPs. The OCI aims to continue improving its regulatory regime towards full ICP compliance.

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, although the OCI is proposing to replace this with an RBC regime. Following consultation in 2014, in September 2015, the OCI announced that it would continue with the proposed three pillar structure, with most of the high level principles unchanged. However, many of the industry suggestions would be considered in the next phase of development, meaning that conclusions on the more contentious Pillar 1 matters has been deferred until the quantitative impact has been assessed.

The OCI has not disclosed a targeted effective date for the new regime. However given the need for further industry consultation and legislative changes, it is unlikely to take effect before 2020, although some elements such as the risk management and corporate governance requirements may be brought in at an earlier date.

In 2015, the Hong Kong government and the three financial services regulators (the OCI, the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) (completed two stages of joint consultations on an Effective Resolution Regime. The

proposed resolution regime will cover authorized insurers that are G-SIIs, or are subsidiaries or branches of G-SIIs operating in Hong Kong. The OCI will act as one of the resolution authorities. The proposal also included the establishment of a Recovery Review Tribunal and Resolution Compensation Tribunal and cross-border recognition of resolution actions. In December 2015, the Financial Institutions (Resolution) Bill was presented to the Legislative Council for first reading.

Consultation on a voluntary health insurance scheme and a review of regulation of private healthcare facilities, which was aimed at reducing the burden on the public healthcare system, is expected to be completed in 2016. The impact on the healthcare insurance market is not yet known, although many insurers have publicly indicated their support of the reforms.

As there are no foreign ownership restrictions in Hong Kong, the insurance market continues to be dominated by global insurance groups, with Hong Kong serving as the regional hub. Regulatory changes in the home country jurisdictions can therefore also affect local Hong Kong insurance subsidiaries or branches to a certain extent. Examples of this are European parented groups through Solvency II and Bermuda parented groups. In the past, many life insurers, which are incorporated in Bermuda but solely operate in Hong Kong, were exempted by the Bermudan Monetary Authority (BMA) from its filing and solvency requirements. However, with changes in the Bermudan solvency capital regime to align with Solvency II, these insurers are now required to fully comply with the new BMA requirements from the 2016 year end.

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.

2015 saw a continued increase in regulation relating to product design, commission structure, internal approval, marketing literature and sales processes of both linked and non-linked insurance products.

The tightening of regulations by the OCI, HKMA and SFC since 2013 over investment linked products has led to a noticeable decrease in the sales of such products, particularly through the bancassurance channel. In December 2014, the HKMA issued a first circular in respect of sales practices for non-linked term insurance products. In July 2015, the OCI issued similar guidance for all non-linked insurance products with specific policy benefits illustration requirements for participating and universal life products. This will become effective in April 2016 for new business and January 2017 for in-force business.

The IIA Bill has strengthened corporate governance by introducing requirements for the OCI pre-approval of critical functions, one of which is to manage insurance intermediaries. The regulated activities which fall under the new licensing requirements for insurance intermediaries are also broadened.

In December 2015, the Competition Ordinance became effective in Hong Kong. This will affect how insurers can share claim information in adjusting product design or pricing.

Cross-border sales practice has been closely monitored by the OCI with the continued increase of Mainland Chinese customers coming to Hong Kong to purchase insurance products. From 12 March 2016, the People's Bank of China in China will prohibit the use of electronic payment services via China Union Pay platform by Mainland Chinese for any purchases of life insurance and investment-related products. This initiative aims to stem capital outflow from China and is likely to dampen the sales volume to Mainland Chinese customers going forward.

Finally, the Government plans to submit draft legislation for the establishment of a Policyholder Protection Fund during 2016.

India

Pursuant to enactment of the Insurance Laws (Amendment) Act, 2015 (the Act), the Insurance Regulatory and Development Authority of India (IRDAI) has notified several new regulations impacting the Indian insurance market. In particular, this includes regulations allowing foreign reinsurers as well as Lloyd's syndicates and its members to open branch offices in India and the increase in the level foreign investment permitted to 49 per cent.

ICP compliance

India is not a member of the IAIS and currently does not actively monitor ICP compliance.

Prudential developments

The Act introduced much awaited reforms, including the increase in foreign investment ownership cap in an insurance company to 49 per cent and permitting overseas reinsurers to open branch office in India. Prior to the Act, foreign investment beyond 26 per cent could only be made with prior approval of Foreign Investment Promotion Board. A policy announcement allowing foreign investment up to 49 per cent in an insurance company (subject to fulfillment of few conditions) without the need for such approval was recently made in the Union Budget and detailed guidelines in this regard are expected soon.

To give effect to the provisions of the Act, IRDAI has notified various enabling regulations. Some of the key regulations are as follows:

- **IRDAI (Registration and Operations of Branch Offices of Foreign**
  Reinsurers other than Lloyd's) Regulations, 2015
  This lays down the operational framework and eligibility norms for foreign reinsurers to set up branch office in India. The key eligibility norms require that the foreign reinsurer has a minimum net owned funds of INR 50,000 million and will invest a minimum assigned capital of INR 1000 million to the branch office in India.

- **IRDAI (Lloyd's India) Regulations, 2016**
  This sets out the operational framework and eligibility norms for the Society of Lloyd's, service companies and Syndicates of Lloyd's for setting up presence in India.

- **IRDAI (Other Forms of Capital) Regulations, 2015 – notified in November 2015**
  This enables insurance companies to issue capital other than equity shares, subject to satisfaction of certain conditions.

- **IRDAI (Expenses of Management of Insurers) Regulations, 2015**
  These regulations provide more prescriptive details for the overall limit on expenses of insurance companies, including requirements on submission of expense allocation methodology across different product segments.

Conduct of business and consumer protection

IRDAI has also issued regulations relating to the conduct of insurance business. The most important of these are as follows:

- New IRDAI (Registration of Corporate Agents) Regulations, 2015
  These permit a corporate agent to have arrangements for distributing insurance products with a maximum of three of each category of insurance company (Life/General/Health). Previously they could only distribute products of one life and one general insurance company. Corporate agents have also been asked to submit a board approved policy for enabling open architecture based distribution to the regulator.
- IRDAI (Maintenance of Insurance Records) Regulations, 2015
  These require physical as well as electronic records of policyholders to be held in data centers located and maintained only in India.

Indonesia

Significant regulatory change began for the insurance industry following the replacement of the previous regulator by the Indonesian Financial Services Authority (OJK) in 2013 and the introduction of new insurance law in 2014. The new legislation includes clarification regarding foreign ownership, shareholding thresholds, single presence policy, policyholder protection fund and sharia business. Implementation regulations are required within 30 months of the legislation's effective date, but none were issued in 2015.

In 2015, the OJK issued new regulations related to risk management, retention and domestic reinsurance, marketing and approval of insurance products, money laundering, registration of insurance support professions, and circular letters about the implementation of previous regulations.

ICP compliance

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

Prudential developments

New retention and domestic reinsurance rules

Historically there has been a significant balance of payments deficit in Indonesian reinsurance transactions, with the majority of reinsurance going directly offshore, reflecting a lack of domestic reinsurance capacity and sophistication.

The OJK is seeking to increase domestic retention levels as well as maximize cessions to domestic reinsurance companies. In November 2015, the OJK issued a new regulation concerning self-retention and domestic reinsurance support as well as implementing regulations in the form of a circular letter setting out the new minimum self-retention limits, which vary depending on risk type.

The new reinsurance regulations set out provisions regarding:

- Reinsurance support strategy: a reinsurance support strategy must be submitted to the OJK annually, with first submission on 15 January 2016. New reinsurance programs must comply with the regulations and be submitted to the OJK within 15 days of the agreement becoming effective. All existing reinsurance agreements need to comply with the regulations by 9 November 2016.

- Insurance support for simple risks: which mandates 100 per cent domestic reinsurance coverage for motor, health, personal accident, credit, life and surety lines, unless the products are 'global in nature' and/or are specifically designed for multinational companies.

- Minimum domestic automatic reinsurance support (aka 'treaty insurance') - other than for simple risks, an insurance company must have minimum automatic reinsurance support from domestic reinsurers of at least 25 per cent of the automatic reinsurance capacity of each line of business, or the minimum amount set out in Circular 31.

- Minimum domestic facultative reinsurance support: other than for simple risks, if an insurance company fails to obtain automatic reinsurance support, an insurance company must have minimum facultative reinsurance support from domestic reinsurers of at least 25 per cent of the total sum insured for each line of business, or the minimum amount set out in Circular 31.

There are a number of concerns regarding these regulations, which include:

- Near term lack of sufficient capacity within domestic reinsurance companies to take on all the business which was previously placed offshore
- Lack of local technical expertise to cover the more complex risks.

Temporary relaxation of capital requirements

As part of an economic stimulus package, on 31 August 2015, the OJK issued three circular letters (OJK Circular Letter No. 24, 25 and 26 of 2015), effective from that date, which provided:

- Optionality to use amortized cost as the valuation basis for debt securities in the RBC solvency calculation/minimum funds calculation for conventional and Sharia insurers, respectively
- Optionality to use final redemption value or the amortized acquisition value, as the valuation basis for pension funds
- Reduction in the minimum RBC requirement/minimum funds requirement of 50 per cent for conventional and Sharia companies respectively, provided the minimum RBC ratio/minimum fund ratio remains above 120 per cent/30 per cent, respectively.

Conduct of business and consumer protection

The OJK has issued a regulation concerning “the marketing and approval of insurance product” which stipulates the scope and type of insurance products, product registration and approval and consumer protection. The regulation also requires the OJK’s approval prior to the marketing of new insurance products and prevents the use of distribution channels other than direct marketing, insurance agent, bancassurance and/or non-bank business entity.

> “The OJK has issued a regulation concerning “the marketing and approval of insurance product” which stipulates the scope and type of insurance products, product registration and approval and consumer protection.”

The OJK has issued a regulation concerning “the marketing and approval of insurance product” which stipulates the scope and type of insurance products, product registration and approval and consumer protection.

Japan

2015 has been a year of preparation for the amendments to the Insurance Business Act. Both insurance companies and sales agencies have been addressing issues and improving their operations and systems before expected enforcement in May 2016.

With respect to IFRS, none of the insurance companies in Japan have implemented the framework since its adoption is voluntary. However, many large insurance companies are considering IFRS implementation and the Japanese Financial Services Agency (JFSA) is also considering implementation of an economic-based solvency regime. An in-depth analysis is being carried out to assess the potential impacts on insurance companies.

The JFSA's 2015-2016 Strategic Directions and Priorities suggests a shift in regulatory approach from prudential supervision to market conduct monitoring, as explained below.

ICP compliance

Japan was one of the first FSAP reviews undertaken against the new ICPs. The most recent FSAP review was in 2011, with the next review scheduled for 2017.

The JFSA and associated organizations have improved some items based on the recommendations from the 2011 FSAP review as follows:

- The period of the cash flow analysis in the Appointed Actuary Opinion for life insurance companies have been extended from 10 years to a lifetime

- Enhancement on areas around integrated risk management, including ORSA, in the Inspection Manual/Supervisory Guidelines with insurance companies

- Introducing amendments to the Deposit Insurance Act, which leads to improvements in the failure resolution structure.

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.

The JFSA is in the process of developing a new economic-based solvency regime and published the 2014 field testing results in June 2015. The JFSA will conduct further work towards the establishment of a specific framework concerning the economic value-based solvency regime. Although the JFSA has not announced the schedule of the implementation, large insurance companies have been preparing for the new regime in accordance with enhancements to the economic capital management, including ORSA mentioned above.

The JFSA has requested all insurance companies to submit an ORSA report on a compulsory basis from 2015, taking into consideration some of the integrated risk management governance interviews and ORSA trial report.

In the *2015-2016 Strategic Directions and Priorities*, the JFSA announced a continued focus on governance and risk management, as well as a focus on investment strategy.

Conduct of business and consumer protection

As well as prudential matters, the JFSA has used the *2015-2016 Strategic Directions and Priorities* to promote sustainable economic growth through the following measures, which suggest a shift from prudential supervision to market conduct monitoring:

- Requiring insurance companies to develop financial products and services that prioritize customers' interest, in accordance to their fiduciary duties
- Encouraging enhanced skills and capabilities of asset managers and institutional investors. Given the negative interest rate conditions, the JFSA will require insurance companies to select an appropriate investment strategy according to their risk appetite.

Amendment of the Insurance Business Act was approved in May 2014 to deal with the innovation of products, new distribution channels, and the growth of sales agencies, with enforcement scheduled for May 2016. The JFSA has made the key changes required in the Ordinance, Supervisory Guidelines, and Inspection Manual.

The amendment imposes the following requirements for insurance companies and sales agencies:

- In addition to the existing supervision of sales agencies by insurance companies, new regulations require sales agencies to amend their structure taking into account the size and characteristics of their business
- There is an obligation to understand the customer's needs, and select products that address these. This also requires the disclosure of information regarding insurance products.

It is expected that some companies where insurance intermediation is operated as a secondary business may withdraw from the market, due to following reasons:

- This amendment enables the JFSA to directly inspect sales agencies
- The sales agencies are also obliged to maintain their structure, and to enhance their governance
- The sales agencies are now required to provide a detailed but more time-consuming introduction process than previously.

Another major topic is the disclosure of commissions. The JFSA has required the disclosure of commissions on products sold through bancassurance channel. The proposed disclosure requirements would apply to variable annuity and foreign-currency denominated products that have a higher risk of losses of principal.

Unlike insurance companies, investment trusts have disclosed commissions since 2014. There has also been criticism that the commissions charged on the insurance products mentioned above are high.

The JFSA aims to eliminate the asymmetries of information between insurance companies and their customers, thus creating an environment where customers can choose the products that meet their financial needs and return objectives. The new required disclosures could put pressure on insurance companies to reduce commissions, to the benefit of policyholders.

The amendments are scheduled to start from October 2016 with a complete implementation expected in April 2017.

Korea

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.

ICP compliance

The most recent FSAP review report was published in May 2014, based on the regulatory framework in place in April 2013. A high level of observance of the ICPs was reported, although a number of shortcomings were noted. The FSS expects many of these shortcomings to be solved through the FSC's roadmap for improved supervision, announced during 2014, including elaboration of RBC measurement, introduction of longevity risk, consolidated based RBC and improvement of Liability Adequacy Test. The next FSAP review is scheduled for 2018.

Prudential developments

During 2014, the FSS made a number of changes, enhancing its RBC standard, applying a higher confidence level, elaborating a risk coefficient and reflecting longevity risk. The FSS also has plans to improve the Liability Adequacy Test system to meet international standards prior to implementation of the revised insurance contracts accounting standard.

The FSS has also been focusing on the internal processes of risk management, including risk management structures and reporting hierarchy, risk management processes, and recovery and resolution plans. During 2015, it has also been considering the implementation of Solvency II, with plans to announce a detailed roadmap, including scope and timing of implementation, in 2016.

Conduct of business and consumer protection

In October 2015, the FSS announced its roadmap to enhance the insurance industry's competitiveness and consumer protection. The main contents of the roadmap are as follows:

- Abolition of new product pre-approval and premium rate regulation
- Permission for diverse capital financing for insurance companies (i.e. deregulation of sub-originated bond or hybrid bond issuance)
- Regulation strengthening for prevention against incomplete sales.

Malaysia

Since the implementation of the Financial Services Act 2013 (FSA 2013) and the Islamic Financial Services Act 2013 (IFSA 2013) in 2014, there has been no major legislation changes affecting the insurance industry in Malaysia. However, the effects of both the FSA 2013 and IFSA 2013 are now being felt by the industry, especially in the areas of dividend distributions to shareholders and organization structure.

2015 also saw the implementation of the Goods and Services Act, 2014 (GST), a consumption based tax. Life insurance products are exempted from GST while general insurance products are subjected to GST at the standard rate.

ICP compliance

The last FSAP review of Malaysia was conducted by the IMF in 2013.

Prudential developments

The effects of both the FSA 2013 and IFSA 2013 are having a significant impact on the insurance industry, which is facing new supervisory challenges in the following areas:

- **Dividend distributions to shareholders:** Tighter regulation is being imposed by the Bank Negara Malaysia (BNM). Prior approval is now required from BNM before dividends can be declared to the shareholders. BNM assesses the firm's capital and surplus levels and whether the Capital Adequacy Ratio (CAR) will remain within a healthy range if/once the dividend is distributed.
- **Organization structure:** The requirement for life and general businesses to be run by separate legal entities will come into force in mid- 2018. Firms currently holding a composite license are therefore having to restructure to establish separate entities or to divest either the life or general block of business. A minimum paid up capital of RM100m each for the life and general businesses is required.

In addition, BNM regularly issues new or updates to existing prudential guidelines for the insurance industry. The Risk Based Capital (RBC) Framework has been in place since 2009 for conventional insurers and was implemented for takaful operators in 2014. The RBC Framework requires insurers/takaful operators to maintain its CAR above the Supervisory Target Capital Level of 130 per cent.

Conduct of business and consumer protection

Developments in the conduct area have been significant for both life and general insurance.

For the life insurance industry, changes are driven by the implementation of the Life Insurance and Family Takaful Framework (Life Framework), which BNM issued in 2015. This aims to improve diversification in insurance delivery channels to improve both the quality of advice, choice and value for consumers and to increase the insurance and takaful penetration rate (up to 75 percent by 2020). The Life Framework introduces a number of initiatives, to be implemented

gradually, built around the following three main pillars:

- Gradual removal of limits on operational costs, to promote product innovation while preserving policy/certificate value
- Diversified distribution channels to widen outreach
- Strengthened market conduct to enhance consumer protection.

For the general insurance industry, BNM is expected to announce the de-tariffication of motor and fire insurance premiums in the third quarter of 2016, which will allow insurance/takaful operators more flexibility to determine the premiums for these products. BNM is expected to incorporate premium bands to prevent the risk of under-pricing of premiums. The existing RBC framework should also help to reduce the risk of insurers under-cutting premiums to gain market share upon de-tariffication.

In 2015, BNM issued the Life Insurance and Family Takaful Framework (Life Framework).

New Zealand

The New Zealand insurance industry continues to be dominated by a small number of large players (the majority being Australian owned). 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 having regard to other countries solvency standards and IAIS guidance, and so the regime is still relatively new. Whilst the standards were revised late 2014, there are no immediate plans to change the current regime given its relative infancy.

Prudential developments

The RBNZ continues to focus on supervision and on-going monitoring and compliance, as is evidenced by the number of recent policy initiatives.

Solvency standards

The revised solvency standards, became effective from 1 January 2015. These became applicable throughout 2015 by the RBNZ modifying the conditions of license for insurers subject to Reserve Bank solvency standards. The solvency standards include requirements for insurers to publicly disclose their Actual Solvency Capital, Minimum Solvency Capital, Solvency Margin and Solvency Ratio in respect of each applicable Solvency Standard, as well to present disclosure of these measures on an aggregated basis in respect of total business.

A licensed insurer must disclose this information in its financial statements and on their website (if any). For an overseas insurer, the appropriate disclosure need only be made within the New Zealand branch financial statements.

NZ Insurer data collections

To address the lack of publically available insurance information in New Zealand, the RBNZ have introduced a number of new initiatives over the last 12 months. These include a new template Insurer Solvency Return, Insurer Solvency Exempt Return, Insurer Returns, Quarterly Insurer Survey, and Insurer Foreign Business Return (see below). There are also separate Returns and a Survey for Lloyd's of London.

The NZ Insurer Data Collections webpage contains the latest versions of the forms, definitions, instructions and guidance. Insurers are required to check this page regularly to ensure that the most up to date forms are being used and comments are being addressed.

The RBNZ have indicated that they will consult on a proposal for the regular publication of some of the industry information later this year, however the timing has not yet been finalized. This is largely due to the fact that the material for the publication is reliant on the data from the completed returns, which for many insurers is not due until 30 April 2016.

Review of actuarial information in, or used in the preparation of, financial statements

In January 2016, the RBNZ released guidelines regarding the need for actuarial information contained in, or used in the preparation of, insurer annual financial statements to be reviewed by the Appointed Actuary, in accordance with sections 77 – 79 of the Insurance (Prudential Supervision) Act 2010 (the Act). The guidelines are intended to assist insurers in complying with the Act rather than representing new regulatory requirements. The guidelines cover which financial statements are required to be reviewed, when reviews need to be completed, what is meant by actuarial information, the scope of the review and what reporting and public disclosure is required.

Foreign Insurance Business Data

During July 2015 the Reserve Bank consulted on a proposal to collect additional data on foreign insurance business from New Zealand incorporated insurers with significant foreign insurance business. The purpose of the proposed report was to assist with RBNZ's supervision.

After receiving constructive and supportive feedback, the RBNZ proposed that the requirements should apply to New Zealand incorporated insurers with foreign insurance or inwards reinsurance business exceeding NZ$10 million and 10 per cent of their total insurance business. Subsequently, the RBNZ issued the Insurer Foreign Business Return in August 2015.

Conduct of business and consumer protection

Fair Insurance Code

The new Fair Insurance Code (the Code) came into effect on 1 January 2016 and commits Insurance Council of New Zealand (ICNZ) members to higher standards of service in all their dealings, not just with respect to claims, and introduces a level of self-regulation through industry bodies and associations. For the first time, insurers will need to meet minimum timeframes for responding to the public when claims are made and keep them informed on the progress of their claim.

The new Code has also resulted in the establishment of a Code Compliance Committee, comprising a majority of independent experts, charged with investigating significant breaches of the Code. Sanctions for such breaches will range from a fine (up to NZ$100,000) or to expulsion from the ICNZ.

Whilst this is a positive step towards helping promote higher standards of practice and service to customers, there is still the underlying issue that the underlying law surrounding non-disclosure needs to be modified to make it more understandable and certain for both the industry and consumers.

Review of Retail Life Insurance Advice

On 6 November 2015, the *Melville Jessup Weaver report (MJW Report) - Review of Retail Life Insurance Advice* was released. This report was commissioned by the Financial Services Council (FSC) in response to information gathering requests to FSC members from the Financial Markets Authority (FMA) as well as the Ministry of Business, Innovation and Employment (MBIE) review of the current financial advice legislation.

Similar to the Trowbridge report in Australia, the MJW Report focused on adviser remuneration as the key lever to address issues such as replacement business and conflict of interest. The report examined the retail personal risk insurance market (life and income protection) and in particular the role of advisers.

Review of the Financial Advisers Act and the Financial Service Providers Act

On 25 November 2015, the MBIE published an *Options Paper* that will help guide the overall review of the Financial Advisers Act and the Financial Service Providers Act (the Paper). The aim of the Paper is to promote more confident and informed consumers and investors.

The Paper puts forward three options for change, which range from minor changes to large-scale alterations to the law. The key themes being that advisers have an ethical obligation to put the consumer's interest first, together with clearer and more consistent disclosure of conflicted remuneration. The Paper recommends that advisers should provide simple and common disclosure to clients.

The final report on the operation of both Acts is expected to be provided to the Minister of Commerce and Consumer Affairs by 1 July 2016. This report will include any recommendations for changes as a result of the Paper consultation process.

Singapore

Singapore has a very well developed insurance sector and is geographically well position to meet the increasing demand from Asia. Singapore has a fairly liberalized insurance market with sound regulations and no restrictions on foreign ownership. This encourages international players to enter this market to meet the growing demand in the region.

The establishment of the ASEAN Economic Community (AEC) in 2015 is a major milestone in the regional economic integration agenda in ASEAN, offering significant opportunities. The AEC Blueprint 2025 provides broad directions through strategic measures for the AEC up to 2025. In respect of its financial sector integration vision, this encompasses three strategic objectives: financial integration, financial inclusion, and financial stability. More specifically for the insurance sector, this means more integrated insurance markets with greater regulatory cohesiveness, promotion of financial inclusion and continuous strengthening of regional infrastructure particularly in times of regional stress. This final element may involve improving existing macroeconomic processes and financial surveillance.

ASEAN members have agreed in-principle to liberalize the cross-border supply of Marine, Aviation and Goods in International Transit (MAT) insurance. When this agreement is signed and ratified in 2016, insurers will be able to offer MAT insurance across ASEAN's borders. The next key steps will be to liberalize the catastrophe insurance and reinsurance markets.

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. All licensed insurers were required to submit their first ORSA report to The Monetary Authority of Singapore (MAS) by 31 December 2015.

Prudential developments

MAS is seen by many as one of the forerunners of regulatory change in the ASPAC. In 2015, MAS worked on the feedback received from a number of major consultation papers issued in 2014, such as on the enhanced risk based capital requirements (RBC 2) and outsourcing.

RBC 2 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 and the introduction of a matching adjustment for life business. A full scope quantitative impact study (QIS) exercise was conducted to fully understand the impact of RBC 2 as part of the consultation.

Based on the QIS, MAS noted that an increase in risk requirements compared to the existing RBC framework but that most insurers remained well-capitalized. MAS also observed a greater differentiation in capital requirements between insurers with different risk profiles, which was expected as RBC 2 enhances the risk sensitivity of the capital framework to more accurately reflect the different risk profiles and businesses of insurers.

MAS plans to conduct a further public consultation and impact study in the second quarter of 2016. It has indicated that RBC 2 will only be rolled out after proper calibration and thorough assessment to ensure that it is "fit for purpose". Specifically, the framework must be able to promote sustained long term growth of the insurance sector, and not inhibit insurers from meeting consumers' protection and retirement needs.

Conduct of business and consumer protection

The AEC Blueprint 2025 has identified the need to promote financial inclusion and provide financial products and services to a wider community that is under-served. This will include financial education programs and consumer protection initiatives, expansion of distribution channels to improve access and cost reductions.

MAS has identified the need to manage the disruption caused to the insurance industry by shifts in consumer spending and behavior (such as increasing demand for digital products and services), increased competition and more complex regulation. These are key challenges facing insurers going forward. MAS continues to look at the board of directors to set the tone at the top, perform the stewardship role and exercise effective oversight to safeguard stakeholders', and in particular policyholders', interests in the face of such challenges. The board and senior management are expected to continue to emphasize the following areas:

- Clearly set out corporate values that support proper and ethical conduct of business and fair treatment of policyholders
- Foster a strong risk culture by defining risk objectives, promoting risk awareness and translating it to all aspects of the business
- Tightly link employee rewards and compensation to corporate values
- Promote open discussions and timely escalation of issues
- Ensure accountability by taking a serious view of undesirable behaviors and practices.

With the increasing use of technology, MAS is increasing its focus on cyber risk and is working with the industry to enhance cybersecurity readiness. MAS has highlighted to the board and senior management their responsibility for oversight of technology risk and cyber security. The board needs to endorse the organization's IT strategy and risk tolerance, and ensure that management's focus, expertise and resources are brought to bear on this important topic.

The board also needs to ensure an appropriate accountability structure and that the insurer's risk culture is in place to support effective implementation of the cyber resilience program. MAS expects that the board will be regularly appraised on salient technology and cyber risk developments. The board should be trained on technology risk and

"The monetary authority of Singapore has identified the need to manage the disruption caused to the insurance industry by shifts in consumer spending and behavior (such as increasing demand for digital products and services), increased competition and more complex regulation."

cybersecurity so that it is equipped with the requisite knowledge to exercise its oversight function and appraise the adequacy and effectiveness of the insurer's overall cyber resilience program. The Life Insurance Association of Singapore and General Insurance Association have formed a Cyber Risk Committee in 2015 to share knowledge and experience in cyber risk management and discuss IT security issues.

To advance the vision of a "Smart Financial Centre", MAS set up a new FinTech & Innovation Group (FTIG) in 2015. This group will be responsible for regulatory policies and development strategies to facilitate the use of technology and innovation to better manage risks, enhance efficiency, and strengthen competitiveness in the financial sector.

In addition, MAS is partnering and supporting the industry by various means, including committing S$225 million under the "Financial Sector Technology and Innovation" (FSTI) scheme over the next five years to help fund innovation centers, as well as institution-level and industry-wide projects using FinTech. Further, the Economic Development Board provides insurers who have substantive plans to grow with various incentives programs, with a number of insurers taking advantage of this funding to set up innovation labs in Singapore.

MAS has also spent the last couple of years working to put into effect the recommendations arising from the Financial Advisory Industry Review (FAIR). The key recommendations became effective by the latest of 1 January 2016, including the introduction of:

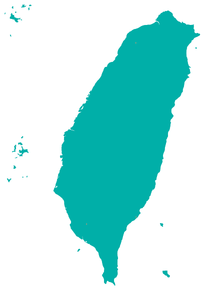
- Higher continuing professional development training for financial advisers
- More stringent conditions for licensing financial advisory firms
- New minimum base capital requirements
- A balanced scorecard remuneration framework which rewards the provision of good quality advice to align the interests of advisers and customers
- A direct channel through which "basic insurance" products can be purchased with a nominal administration fee
- A web aggregator to enhance comparability of life insurance products.

During 2015, MAS consulted on requirements relating to the marketing and distribution of products at retailers and public places in order to mitigate potential market conduct risk posed to consumers arising from roadshows at public places and distribution arrangements with retailers. It proposed a set of market conduct guidelines which set out MAS's expectation on the board and senior management and the controls and safeguards that insurers should put in place. This includes conduct call-backs and regular mystery shopping and site visits, ensuring any gifts offered will not influence the decision of customers, using only representatives with a good compliance record at retailers and public places.

With consumers becoming more vocal in expressing both their satisfaction and dissatisfaction, and continued complaints on mis-selling due to poor advice or mis-information, MAS urged insurers to:

- Review their sales process and consider ways to provide appropriate and sound advice and communicate more effectively with consumers and
- Provide greater transparency and disclosure on products to better assure customers that they are being offered quality products and treated fairly.

Insurers are encouraged to adopt the Code of Practice issued by the Life Insurance Association, Singapore and be fair, pro-active and prompt when dealing with customers.



Taiwan

Starting with firms' 2015 year-end, life insurers will need to submit a peer review of the appointed actuarial report and actuarial memorandum, performed by an external actuary. P&C insurers will be subject to the same requirement from their 2016 year-end. All insurance companies need to submit their first ORSA report before July 2016.

ICP compliance

In specific relation to ICP 16 and 17, insurance companies in Taiwan are encouraged to develop economic capital techniques and a robust ORSA process to enhance their capital management in accordance with the *Insurance ERM Practice Manual.* An ORSA report, with some simplifications, is required in 2016. However, the timetable for introduction of the economic capital regime in Taiwan is still undecided. The possibility of a new RBC measurement basis, as a standardized approximation to economic capital, is being researched and rigorously discussed in the industry.

Prudential developments

Per the amended Insurance Law, insurers are required to engage an external actuary to review its appointed actuary's report every three years (for life insurers) or five years (for P&C insurers).

Due to the negative spread on liability interest rate, the Insurance Bureau (IB) continued requesting all life insurers to calculate the fair value of in-force liabilities every year on the basis of the IFRS 4 Phase II Exposure Draft. Life insurers are also required to submit an action plan showing whether the insurance liabilities booked will be sufficient in future years. P&C insurers have also been requested to calculate the fair value in 2016 for the first time.

The amended Insurance Law, effective in 2016, grants the IB the authority to take over an insurer when its RBC ratio falls below 50 per cent. One life insurer was taken over in January 2016.

The Financial Supervisory Commission (FSC) has not decided when to adopt IFRS 9 and IFRS 4 Phase II. However, it required all insurers to report the impact of IFRS 9 in March 2016.

Few insurance companies have an integrated ERM system or comprehensive data warehouse, although some companies are showing interest in developing this capability. Insurance companies are also exploring the benefit of data-mining in the area of the risk management, underwriting, and business development.

The IB is continually encouraging life insurers to develop internal models to quantify their own risks and the adequacy of capital, although only a few life insurers have developed an internal model so far. There is an expectation that companies with strong risk management that do so will receive some benefit from doing so (for example reductions in operational risk charges or investment restrictions). Industry focus currently is on developing market risk or operational risk models.

Conduct of business and consumer protection

The Long-term Care Services Act is expected to be effective in 2017. With an ageing society but insufficient services for elderly care, the development of long-term care service and health-management related products will be needed in the coming years, although this needs the active participation of both government and legislators. IB is continuously encouraging the sales of annuity products, long-term life insurance, and long-term care products to help in this area and some smaller insurers will develop such products through outsourcing.

Thailand

To support Thai insurers for liberalization under the ASEAN Economic Community (AEC), the Office of Insurance Commission (OIC) launched new regulations in 2015 relating to the establishment of representative offices and acquisition of more than 10 per cent of shares in an insurer in AEC countries. These regulations are subject to certain requirements, in particular:

- The insurer must have a good financial position and performance, including Capital Adequacy Ratios (CAR), for the previous four quarters
- The capital must be adequate for the new investment
- The ratio of investment assets to insurance reserves (for life insurers) or liquidity ratio (for non-life insurers) must be at least 100 per cent
- The insurer's processes, resources, business management, risk management, information and relevant operations are established
- The insurer can demonstrate its understanding of the economic, political, legal and relevant regulatory environment and requirements.

ICP compliance

The OIC and relevant departments have drafted the new Life and Casualty Insurance Acts to improve the regulation of the insurance industry in accordance with ICPs, to meet international standards for the AEC and to ensure that good governance is a priority for all insurance companies.

Prudential developments

Regulatory capital

During 2015, the OIC reissued a notification about the RBC regime that became effective from 31 December 2014 to reduce certain practical implementation inconsistencies.

The framework of RBC 2 is still in development. The timeline presented by the OIC in late December 2015 is as follows:

- A Quantitative Impact Study will be tested in 2016
- In the transition period, the OIC will introduce a risk charge for operational risk, revise risk charges for group risk and focus on the ORSA
- The OIC will at some point increase the overall confidence level of the framework from 95 percent Value at Risk (VaR) to 99.5 percent VaR.

Conduct of business and consumer protection

There are a number of formal meetings between the OIC and other regulators, such as the Securities and Exchange Commission, the Bank of Thailand, the Office of The Consumer Protection Board, to discuss the conduct of financial business and customer protection.

The discussion on de-regulation 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.

Motor insurance

The OIC intends to merge compulsory motor insurance and voluntary motor insurance policies into a single policy, and has appointed a committee to develop an implementation plan. It has also signed a Memorandum of Understanding (MOU) with the National Health Security Office (NHSO) to link information systems to protect citizens' rights in relation to car accident cases and to support the NHSO in managing the medical claims and documents through the clearing house system.

The OIC has increased the sums insured under insurance policies on 1 April 2016. In relation to medical fees, this has increased from Baht 50,000 to Baht 80,000; and for death or disability or dismemberment from Baht 200,000 to Baht 200,000 - 300,000.

Europe (including Central and Eastern Europe), Middle East and Africa (EMA) region

Without doubt, the biggest regulatory development in Europe is Solvency II, which entered into force on 1 January 2016 and applies across the European Economic Area (EEA) to both insurance and reinsurance companies ('insurers') and insurance groups, creating a harmonized, prudential framework, enabling much greater comparability across firms.

Europe

Prudential developments - Solvency II

Unlike its predecessor directives[3], Solvency II does not permit gold-plating of its requirements at a national level. However, certain prescribed national discretions will mean the regime is not identical in all respects across Member States.

Legislative update

The legislation comprises the Solvency II Directive [4], the Commission Delegated Regulations[5], Commission Implementing Regulations [6] and Guidelines [7] issued by the European Insurance and Occupational Pensions Authority (EIOPA). During 2015, three waves of Commission Implementing Regulations were finalized and EIOPA finalized 30 Guideline papers. However, the Amendments to the Commission Delegated Regulations[8] were only passed in April 2016.

All layers of the Solvency II legislative package need to be complied with. Technically, the EIOPA Guidelines are subject to a 'comply or explain' decision by the national supervisory authorities (NSA). However, responses from the NSAs show a near 100 per cent confirmation of compliance.

Equivalence update

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

- The treatment of reinsurance contracts placed with non-EEA reinsurers
- Enabling an insurance company that is subject to an equivalent solo solvency 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) and
- Reliance on the group supervision performed under equivalent group requirements.

An equivalence decision may be granted on either a permanent (equivalence) or time restricted (provisional or temporary equivalence) basis. Temporary equivalence relates to the reinsurance and group requirements aspects and lasts until 31 December 2020 with a potential one year extension. Provisional equivalence only relates to the ability to include a non-EEA insurer within the Solvency II group solvency calculation on a local solvency basis. This potentially allows EEA groups to compete with domestic insurers in that jurisdiction on a more level playing field, especially if the local solvency capital requirements are less onerous than Solvency II. It is valid for a period of 10 years with the possibility of renewal for further periods of 10 years. The decisions that have been finalized are set out in Table 1.

Table 1: Equivalence status of third country regulatory regimes

	Reinsurance	Solo solvency	Group requirements
Switzerland[9]	Equivalence	Equivalence	Equivalence
Bermuda (insurers classified as Classes 3A, 3B, 4, C, D and E only)[10]	Equivalence	Equivalence	Equivalence
Japan[11]	Temporary equivalence	Provisional equivalence	
Australia[12]		Provisional equivalence	
Brazil[12]		Provisional equivalence	
Canada[12]		Provisional equivalence	
Mexico[12]		Provisional equivalence	
USA[12]		Provisional equivalence	

Source: KPMG International 2016

Full equivalence has only been granted in respect of Switzerland and Bermuda.

In addition to the countries listed above, EIOPA has previously considered the supervisory regimes of Chile, China, Hong Kong, Israel, Singapore and South Africa, although it is currently unclear whether a third wave of equivalence decisions will be issued in the near future.

Scope

With limited exceptions, all insurers in the EEA with either premium income over €5m or gross insurance technical provisions above €25m are subject to Solvency II. Smaller insurers that are part of an insurance group are also captured. The regime applies to both solo insurers and the insurance groups of which they are part.

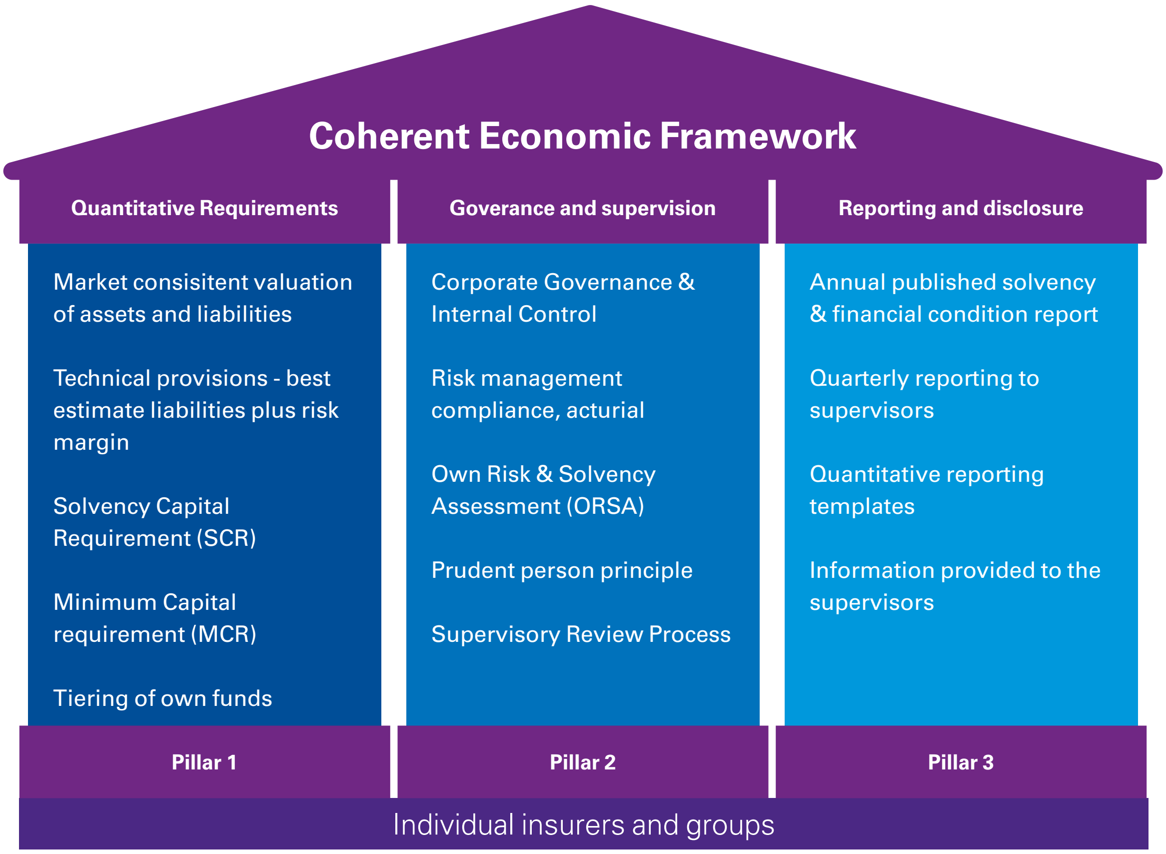
The group requirements at EEA parent level largely mirror the solo requirements set out below. However, where the parent sits outside the EEA, the requirements depend on whether the insurance group is subject to equivalent group supervision or not:

- Reliance is placed on equivalent group supervision undertaken by the local supervisor
- In the absence of equivalence, the group is treated as if it were parented within the EEA, unless the group supervisor has approved use of 'other methods' to achieve the objectives of group supervision. This 'other methods' approach has been widely used.Starting with

firms' 2015 year-end, life insurers will need to submit a peer review of the appointed actuarial report and actuarial memorandum, performed by an external actuary. P&C insurers will be subject to the same requirement from their 2016 year-end. All insurance companies need to submit their first ORSA report before July 2016.

Solvency II requirements

Solvency II adopts a three pillar approach, as shown below.



Source: KPMG International 2016

Pillar 1

Pillar 1 deals with the quantitative aspects. Both sides of the balance sheet are valued on a market consistent basis, although some argue that the long-term guarantees measures (see below) undermine this.

The calculation of solvency is assessed against two capital requirements: Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR), enabling a so called 'ladder of supervisory intervention'. Failure to maintain own funds (capital) in excess of the SCR triggers additional reporting requirements and enhanced supervision. However, breaches of the lower MCR require supervisors to take greater action, which may lead to the insurer being de-authorized. Although SCR coverage levels will likely become a key metric reported, it is the MCR coverage level that is more critical to the long-term existence of the insurer.

The SCR captures risks within both sides of the balance sheet as well as operational risk. Insurers must calculate the SCR following either the prescribed standard formula approach or, with supervisory approval, its own internal model (full or partial). Across Europe, the absolute number of approved internal models is low (for example, in the UK, internal model approval was granted to 19 firms[13], representing less than 5 per cent of UK authorized insurers). However, most of the largest insurance groups within Europe will be using internal models.

Regardless of which calculation basis is applied, the supervisor must assess the appropriateness of the SCR calculation methodology for an insurer's risk profile. Where the supervisor believes that there is a significant deviation between the risk profile and the assumptions underlying the SCR calculation, then it may apply a capital add-on to increase the SCR accordingly.

Long-term guarantees measures

For long duration insurance contracts, short term fluctuations in asset prices have less relevance to an insurer's ability to service claims. In recognition of this, Solvency II includes four important adjustments to make the regime more appropriate for these products:

- **Matching adjustment (MA)**
  The MA adjusts the discount rate used to value certain long-term insurance contracts to address short-term volatility in bond prices. There are strict rules regarding the application of the MA, covering both the insurance contracts and the assets matching the liabilities on those contracts (largely to ensure consistent fixed cash inflows from the assets are available to meet fixed cash outflows on the insurance contracts), with those assets and liabilities held within a separate MA portfolio. Insurers need to gain regulatory approval to use the MA.

- **Volatility adjustment (VA)**
  The VA is also an adjustment to the discount rate, intended to reduce the value of insurance liabilities to prevent forced sales of investments in adverse market conditions, potentially exacerbating the market downturn. Unlike the MA, the VA is determined based on a reference bond portfolio determined by EIOPA. It does not give as much benefit as the MA. The VA can be applied to any products not already using the MA. Regulatory approval to use the VA was not mandated in Solvency II, although some Member States require this.

- **Extrapolation of the risk-free rate**
  This applies where there is insufficient reliable market data to determine long-term discount rates. At the point where the local bond market is no longer deemed deep, liquid and transparent (20 years for Euro and 50 years for GBP), extrapolation of the interest rate is required to an ultimate forward rate (UFR), assuming a smooth convergence. Currently the UFR for both Euro and GBP[14] is set at 4.2 per cent and applies from year 60. Given the difference in the last liquid point, this is leading to different discount rates being applied in the Eurozone and the UK.

- **Transitional measures**
  The nature of the long-term guarantees previously provided by some insurance contracts results in significantly higher insurance liabilities under Solvency II than was required under the predecessor directives. The transitional measures relating to insurance contracts permit this difference to be recognized over a 16 year period, by allowing either a transitional

deduction from the technical provisions or an adjustment to the discount rate. Both approaches require regulatory approval. The transitional deduction may be recalculated (with regulatory permission) if the insurer's risk profile changes.

Own funds

Solvency II rules determine which elements of capital can be regarded as own funds for regulatory purposes. There are requirements relating to eligibility and tiering. The eligibility rules result in eligible own funds being allocated to Tier 1, 2 or 3 depending on the capital instrument's quality, considering matters such as the degree of permanence and loss absorbing capacity.

Tier 1 is unrestricted, apart from a 20 per cent sub-limit that applies to capital that is only eligible under the transitional arrangements together with eligible subordinated liabilities, preference shares (plus related share premium) and subordinated mutual member accounts.

Limits apply to the other tiers in relation to their coverage of both the SCR and MCR as follows:

- **SCR**: Tier 1 must be at least 50 per cent, Tier 3 cannot exceed 15 per cent and the total of Tier 2 and Tier 3 items cannot exceed 50 per cent of the SCR
- **MCR:** Tier 1 items must be at least 80 per cent and Tier 2 cannot exceed 20 per cent of the MCR. Tier 3 is not eligible for coverage of the MCR.

Pillar 2

Pillar 2 relates to the qualitative aspects of the regime, including governance requirements and supervisory review.

Governance requirements

'Fit and proper' requirements apply to board members and Solvency II establishes clear responsibilities for the board as a whole. In addition, there are a number of 'required functions', including compliance, actuarial and risk functions, each of which has detailed roles and responsibilities.

Prudent person principles

A significant change from previous directives is the level of investment freedom permitted, with previous restrictive requirements replaced by 'prudent person principles'[15].

Provided the portfolio is invested in the best interest of policyholders, is appropriate for the nature and duration of the insurance liabilities, adequately diversified without excessive risk concentrations, and demonstrates adequate security, liquidity and profitability, then the only restrictions relate to the use of derivatives and ensuring unlisted investments are kept to prudent levels.

Insurers must have strong internal processes to demonstrate that the underlying risks are understood and appropriately managed. Capital charges within the SCR calculation vary depending on the type of asset held, with some charges being punitive, leading to a new focus on portfolio optimization.

Own risk and solvency assessment (ORSA)

Solvency II requires the management of each insurer to conduct an ORSA[16], determining its own view of its solvency needs and assessing both the deviation of its risks from the assumptions underlying its SCR calculation and the insurer's ability to meet both its capital and technical provision requirements on an ongoing basis.

The ORSA process is a key element of the Pillar 2 requirements, with the ORSA Report being both a tool for management and a good source of information for supervisors. It requires consideration of the totality of risks to the firm, including non-readily quantifiable and emerging risks (such as the impacts of climate change or political risks) and a longer timeframe than the one year period that underlies the SCR calculation. Typically this will be the duration of the insurer's business plan, although some supervisory authorities expect the period under review to be no shorter than three years.

The ORSA Report must be submitted to the firm's supervisor on an annual basis (also when there has been a material change in the insurer's risk profile) within two weeks of its approval by the board.

ORSA-style reporting started in 2014 as part of the preparations towards Solvency II. This has provided greater awareness of the level of effort involved in producing such reports and greater depth of understanding about insurers' risk profiles. A common message from a number of the NSAs was that insurers need to bear in mind that the intended audience for the report should be the board and not the regulator, so the Report must address the board's needs first and foremost. KPMG member firms have seen some changes of focus in more recent reports, including more streamlining and greater focus on the results of stress and scenario testing. More frequent use of ORSA is also becoming a focus area, managing risk over a forward looking multi-year time horizon.

Supervisory review and capital add-ons

Solvency II establishes various supervisory powers, including both approval powers (for example internal models, use of the long-term guarantee measures and group solvency calculation basis) and the power to apply capital add-ons. A supervisor can only apply capital add-ons in two circumstances - either it has concerns about weakness in governance or it believes there is a significant deviation between risk profile and SCR calculation basis.

However, it should be noted that add-ons are intended to be applied only in exceptional circumstances.

Pillar 3

Pillar 3 relates to both the regulatory information made available to the market and the private reporting to NSAs. It covers the provision of:

- The regular triennial non-public supervisory report (RSR) to the NSA
- The annual public solvency and financial condition report (SFCR)
- The annual and quarterly quantitative reporting templates (QRT).

The requirements of each of these are very detailed and the two narrative reports are expected to be long documents. Group reporting is required six weeks after the solo reporting deadlines and both are subject to transitional measures that allow an extended reporting deadline for the first four years of Solvency II.

The first reporting under Solvency II relates to reporting to NSAs of the opening Solvency II position[17]. This applies at both solo and group level and covers the opening Solvency II balance sheet, own funds, SCR and MCR, together with an explanation of main valuation differences from the previous regulatory regime.

Audit requirements

In July 2015, EIOPA issued a Note entitled *Need for high quality public disclosure: Solvency II's report on solvency and financial condition and the potential role of external audit.* This states EIOPA's belief that "it is of paramount importance for auditors to issue a public opinion and an audit report on whether the disclosed elements have been properly prepared, in all material respects, in accordance with the Solvency II regulatory framework.". The elements highlighted as potentially falling within the audit scope are the Solvency II balance sheet, own funds and capital requirements at both solo and group level.

However, as this was not published as formal Guidelines, there is no consistent approach being adopted by NSAs, distorting the level playing field.

At the time of writing, the countries that have either finalized or are proposing audit requirements are set out in Table 2. In addition to the countries shown, Denmark will require an audit only in relation to Solvency II information reported within the statutory accounts (excluding the MCR and SCR) and a number of the Baltic States have proposals relating to reporting by the auditors to their local NSA which will not be publicly available.

The decisions that have been finalized are set out in Table 2.

Table 2: Equivalence status of third country regulatory regimes

Country	Audit requirements (public opinion except where stated)
Austria (reporting to NSA only)	The Austrian law sets out the scope and form of audit opinion required. Positive assurance will be required in relation to the SFCR, including the Solvency II balance sheet, the framework for calculating the SCR, the MCR and application of own funds tiering limits. Negative assurance will be required on the design and implementation of internal control, risk management and internal audit.
Belgium	Key QRT templates covering the Solvency II balance sheet, own funds, SCR and elements of the narrative reporting. Where the SCR is determined using an internal model, the scope will be limited to validation of the process, inputs and outputs.
Germany (reporting to NSA only)	German law requires positive assurance on the Solvency II balance sheet only. The law does not bring the SCR or other QRTs explicitly within the audit scope, although the audit profession is considering how to include some QRTs to assess the reasonableness of the balance sheet.
Netherlands	Key QRT templates covering the Solvency II balance sheet, technical provisions, own funds, SCR and MCR.
Poland	Key elements of the SFCR, including the Solvency II balance sheet, technical provisions, own funds, SCR and MCR.
UK	Key QRT templates covering the Solvency II balance sheet, technical provisions, own funds, any SCR determined using the standard formula (but not internal model derived SCR) and MCR. Valuation and capital management sections of the SFCR.

Source: KPMG International 2016

Conduct of business regulation

In addition to Solvency II's requirements relating to sound management, robust governance and solvency, conduct of business regulation is more focused on consumer protection. This includes the provision of appropriate information for customers on the conditions attaching to, and costs and risks of, the products they buy, ensuring they are treated fairly and receive value/service for money.

Legislative update

Last year KPMG member firms reported that the Regulation on Product Information Documents for packaged retail and insurance-based investment products[18] (PRIIP) was finalized in November 2014, but that the Insurance Distribution Directive[19] (IDD) was progressing more slowly. The IDD was approved on 20 January 2016, with the deadline for transposition into national law being 23 February 2018. The effective date of the PRIIP Regulation is 31 December 2016. A number of technical standards will be required in relation to both directives.

PRIIP

The draft regulatory technical standards (RTS) addressing the content of the mandatory key information document (KID) that will be required were issued to the European Commission for approval on 31 March 2016. The KID is a short piece of pre-sales literature that must be provided to potential investors and policyholders.

The draft RTS prescribe the KID template, the presentation and underlying calculation methodologies of each of the required risk, performance scenarios and costs sections, specific rules for "multiple option" PRIIPs (such as unit-linked insurance contracts with options for the underlying investment funds), and rules on the provision and review of the KID.

The KID template is straightforward; however, the biggest challenge for providers will be determining how to include the required statistical information, ensuring that required narrative is succinct yet meaningful, within the maximum three sides of A4-sized paper allowed. KIDs must be provided by all PRIIP manufacturers by January 2017.

IDD

In February 2016, the European Commission requested advice[20] from EIOPA in a number of areas, giving a deadline of 1 February 2017 for its response. This includes requirements in the areas of:

- Product Oversight and Governance (POG)
- Product Information Document (PID) for non-life products
- Conflicts of Interest
- Inducements
- Suitability, Appropriateness and Reporting to customers.

On conflicts of interest, EIOPA issued Technical Advice[21] in relation to proposed regulations to support the existing Insurance Mediation Directive in January 2015. These were not taken forward by the European Commission and are now likely to form part of EIOPA's response to this request.

On POG, EIOPA indicated last year that it planned to introduce preparatory guidelines to apply[22] in the period before the IDD comes into force. These Preparatory Guidelines[20] were issued on 13 April 2016, opening the two month "comply or explain" window for NSAs. Subject to NSA compliance being confirmed, these Guidelines will need to be followed by both insurers (as manufacturers of insurance products) and distributors, although their preparatory nature will mean that non-compliance will not require enforcement action to be taken.

The Preparatory POG Guidelines will require insurers to identify the target market for each product, ensure the product is designed to align with the identified needs of that target market and ensure that it is distributed through appropriate channels. Product testing will be required before products are sold, which will include an element of scenario testing to consider what action may be needed if unforeseen risks arise during the lifetime of the product. Product literature supplied to distributors will need to cover both information about the product and its target market, so it can be appropriately sold.

Member State developments

There is no harmonized approach to conduct supervision across Member States. EIOPA has sought to improve consistency by issuing a number of papers to increase cross-border awareness of work conducted by the NSAs.

In December 2015, EIOPA published its fourth Consumer Trends Report[23], based on information gathered from NSAs, and in January 2016 it released a paper[24] setting out its strategy for developing a comprehensive risk-based and preventive framework for conduct of business supervision at a European level.

The Consumer Trends Report shows a continuation of various trends identified in previous years' reports, such as:

- Financial advertising and disclosure of contractual and pre-contractual information issues
- Claims handling weaknesses (especially in the motor insurance sector, which is the most important non-life insurance line of business in most Member States)
- Unit-linked life insurance products
- Cross-selling and add-ons
- Inappropriate policy switching (for example from guaranteed to products with lower/no guarantees)
- Management of potential conflicts of interest and
- Low level of financial literacy amongst consumers.

Other matters raised in the 2015 report include:

- Financial innovation and complexity

- Customization of products and segmentation of consumers through consumer analytics and/ or Big Data (including concerns regarding customer access and use of personal data) and

- Training and professional competence standards of insurance intermediaries.

The conduct framework proposed builds on EIOPA's current approach to consumer protection, with a greater emphasis on preventive, risk-based conduct supervision. It suggests all NSAs should adopt a forward-looking approach, assessing the depth and scale of potential consumer issues and anticipating, and responding to, potential consumer detriment early. EIOPA proposes to play a central role in planning, coordination and information sharing and will develop tools to help NSAs.

In addition to the Consumer Trends Reports and ad hoc surveys already produced, EIOPA aims to identify market areas that should be monitored, which may include use of thematic reviews to target specific financial activities or products. Retail (or conduct) risk indicators such as claims ratios, combined ratios, commission levels or lapses/surrender ratios could be used to identify where such reviews should be targeted.

Examples of measures undertaken at a local level are as follows:

- In **France**, insurance companies will be required to respond to an annual consumer protection questionnaire issued by the French regulatory authority from 2016. This includes information in a number of conduct related areas, including marketing activity, complaints, data processing, new products, disclosure, outsourcing, remuneration and internal control procedures. It has also been made easier for individuals to terminate insurance policies at any time after they have been in force for a year, including contracts renewable by tacit agreement.

- In **Germany**, nearly 90 per cent of German insurers apply the voluntary Code of Conduct on the Distribution of Insurance Products established by the German Insurance Association (GDV), which requires reviews by external auditors every two years to be made publicly available.

- In **Malta**, the first three chapters of a new Conduct of Business Rulebook were issued in May 2015, as part of the first phase of consultation, covering disclosure requirements, product governance and oversight and conflicts of interest. On 11 April 2016, a second consultation was issued on the chapters covering selling process and practices and the execution of clients' orders.

- In **Norway**, new requirements came in force on 1 January 2016 related to the servicing of clients by employees that have the competence, experience and knowledge required in relation to the specific client's needs.

- In **Spain**, the ability of the NSA to perform mystery inspections without prior company notification has been built into the legal framework and this has now started.

- In the **UK**, a number of thematic reviews are undertaken every year. In 2015/16, these included reviews related to the provision of premium finance to retail general insurance customers, delegated authority arrangements in the general insurance market, mobile phone insurance, the impact of UK pensions reforms and assessing whether life insurers are operating their closed-books in a way that treats their long-standing customers fairly.

Isle of Man

In 2015, the Isle of Man Financial Services Authority (FSA) took over responsibility for financial services supervision from the former Insurance and Pensions Authority and Financial Supervision Commission. Its 'roadmap' aims to deliver, by 2018, a supervisory regime which is both observant of international ICPs, as well as robust enough to ultimately withstand the rigors of a Solvency II transitional equivalence assessment for the life market.

Consultation on the Insurance (Amendment) Bill closed in December 2015. This aims to modernize the core Insurance Act legislation in 2016.

ICP compliance

Following the major ICP revisions of 2011, a regulatory roadmap was published in 2013 with the stated objective of the Isle of Man achieving "a high level of observance in respect of the ICPs, as assessed by international bodies", including a commitment to monitor changes on an ongoing basis.

The FSA is following this roadmap to address any omissions in the local supervisory framework, with a number of workstreams currently active. Its ultimate aim is to deliver an ICP-consistent framework having regard to a possible future Solvency II transitional equivalence assessment for life business. Given the constitution of the Isle of Man insurance market, no consideration is currently being given to a possible equivalence assessment for non-life business.

Prudential developments

The FSA is committed to the implementation of market-consistent balance sheets and developing one or more Standard Capital and Solvency Models. Following 2014's discussion and consultation papers on valuation and capital adequacy, 2015 focused predominantly on testing the proposed design of a proportionate risk-based capital regime, with life companies participating in two QIS exercises, with a separate QIS specifically for the general insurance and captive sectors.

A specific discussion paper, DP14-09, saw the FSA focus their efforts on areas of particular interest in the context of roadmap delivery. The existing local Corporate Governance Code is considered "broadly consistent" with ICPs, but will require elaboration in some areas, most notably to incorporate ORSA requirements. Internal models are not currently part of the regime but attention has been given to the calculation of an operational risk charge due to the idiosyncrasies of the Isle of Man life industry's operating models.

Consultations on Group Supervision and Public Disclosure were originally scheduled for the end of 2015, but were delayed by the merger of the two financial services regulators. No timeline for these has yet been published.

With regard to national law, consultation on the Insurance (Amendment) Bill closed in December 2015. This has been given priority for the 2015/16 parliamentary sitting, and is targeted at reflecting changes in international regulatory standards.

Conduct of business and consumer protection

The Isle of Man has made progress in the field of Conduct Risk. The FSA issued CP15-02 Conduct of Business in July 2015 as a follow up to a discussion paper published in 2014. The consultation aims to lead to a Conduct of Business Code for long term business, issued as binding guidance, which is consistent with ICP 19. A separate paper is expected to follow for intermediaries and general insurance business.

Switzerland

The regulatory environment in Switzerland in 2015 was characterized by multiple regulatory initiatives and changes, all of which could have significant impacts on insurance companies. The main trends of last year can be summarized as follows:

- The adoption of international standards
- The spill-over effect of banking law into the insurance domain
- Strengthening of 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 EU 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 FSAP review 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 FSAP reviews, the reviewers urged FINMA to develop a stronger market conduct.

In September 2015, Switzerland, in its position as non-EEA Member State, was granted full equivalence status in respect of all three areas of Solvency II (solo solvency calculation, reinsurance and group supervision). This means that:

- Where it has approval to include a subsidiary on a solo aggregated basis within the group solvency calculation, an EEA insurer can include its Swiss subsidiary using the prudential regulatory rules of Switzerland, instead of Solvency II rules
- For Swiss insurance groups with activities in the EEA, the European supervisors must rely on the group supervision performed by FINMA
- A Swiss reinsurer must be treated in the same way as EEA reinsurers.

Prudential developments

The partially revised Insurance Supervision Ordinance (ISO) came into force on 1 July 2015. The primary aim of the resulting adjustments was to bring the Swiss solvency rules in line with the requirements of the European Solvency II Directive. The ISO revision concerns the following key topics: solvency (all insurance companies have to be Swiss Solvency Test (SST) compliant, preference for standard models), qualitative risk management (requirements for directors and ORSA), disclosure, technical reserves, supervision of insurance brokers and a number of other amendments.

The new provisions of the ISO may lead to considerable changes for some companies, including organizational changes. The changes concern central topics such as solvency, corporate governance and disclosure obligations. All reinsurance captives are now subject to the SST. Every board member must have the expertise and time required to carry out his/her function. The new provisions also implement the requirements for the ORSA, which has to be carried out in accordance with international standards.

Further, FINMA published a new *Circular 2016/2: Public Disclosure.* The circular lays out standardized rules for disclosing comparable and relevant information to the public. Improved comparability and greater transparency aim to afford better protection to policyholders. The *FINMA Circular 2016/3: ORSA* defines the principles that insurance companies must apply to the self-assessment. Insurers need to adopt a forward-looking perspective in order to form an overall picture of the company. The self-assessment provides information about the risk situation, capital adequacy and the relationships between risk and capital. The key trigger for both these circulars was to adjust to international standards and to help achieve Solvency II equivalence status.

Conduct of business and consumer protection

Swiss Financial Services Act (FIDLEG)

The draft FIDLEG may have a direct effect on the insurance industry, as it covers all providers of financial instruments. Redeemable life insurance policies with price-dependent benefits and settlement values (as well as capital redemption operations and tontines) may fall under FIDLEG. If this scope is unchanged in the final legislation, insurance companies and insurance intermediaries in Switzerland will have to address a range of strategic questions and thoroughly plan for the implementation of the FIDLEG rules. The ambitions of FIDLEG are the protection of consumers, the achievement of equivalence with the European Regulations (such as the Markets in Financial Instruments Directive (MiFID II)) and a level playing field in the Swiss financial sector. FIDLEG also includes rules on conduct including suitability and appropriateness tests.

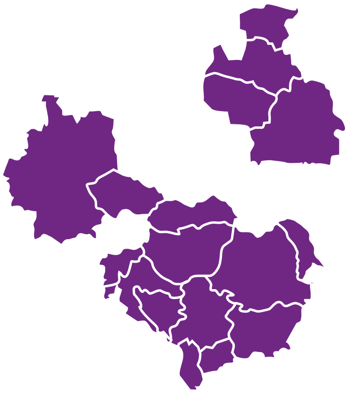
Insurance association bodies have raised some fundamental concerns. They believe that the insurance sector should not fall under FIDLEG and are seeking an industry-specific solution, similar to the approach adopted in Europe, where insurance distribution will fall under the IDD and not MiFID II (see Europe section above).

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 resultant considerable financing needs of various countries. The OECD took a decisive step toward international tax transparency with the standard for the Automatic Exchange of Information (AEoI) which entered into force within the European Union and other so-called Early Adopter Countries on 1 January 2016. With respect to Switzerland, the first exchange of information under the AEoI will take place in September 2018 regarding the year 2017.

Financial institutions that will be required to collect and report their clients' financial data will not only include banks but also certain investment entities and specified insurance companies. A specified insurance company is an entity that issues, or is obliged to make payments with respect to, a cash value insurance contract or an annuity contract.



Central and Eastern Europe (CEE) region

The CEE region covers 18 countries[25]. Most of the CEE insurance markets are dominated by subsidiaries of groups based outside the region, with third party liability motor insurance the most important line of business in most CEE countries.

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, and in particular transition to Solvency II, is a much higher priority than ICP compliance.

Prudential developments

During 2015, the majority of effort was spent in preparing for Solvency II. However, the Czech Republic has suffered a notable delay in transposition of the directive. In October 2015 the Czech Parliament rejected the Amendment to the Act on Insurance which was meant to implement all major requirements as of 1 January 2016. At the time of writing, the Czech Republic has still only partially transposed the directive even though the transposition deadline was 31 March 2015. As a result, the country is currently exposed to possibility of sanctions from the European Court of Justice. Bulgaria has also yet to complete transposition of the directive.

In Romania, EIOPA, the European Commission and local supervisor initiated a Balance Sheet Review exercise during the first half of 2015, requiring an independent review of the assets and liabilities of the 13 largest insurance companies to assess the readiness of the Romanian market for Solvency II compliance. The companies selected represent more than 80 per cent of the Romanian insurance market. The review report was issued in July 2015 and found a number of concerns, concentrated in four insurers.

Assessment against Solvency II requirements showed that five insurers had negative own funds (one marginally so) and only four insurers would have an SCR ratio (own funds/SCR) above the 100 per cent threshold that should be met at all times. For the MCR ratio (own funds/MCR), only eight insurers reached the 100 per cent threshold.

The stress scenarios tested were further cause for some concern. Under the earthquake scenario, only one insurer (a life company) would pass the 100 per cent SCR ratio post stress. Under the flood scenario, this number increases to three. The economic and financial market scenarios fared marginally better, with four insurers having an SCR ration above 100 per cent post stress. Action plans were required to move the affected firms to Solvency II compliance in advance of the directive coming into force.

As a result of the findings, in July 2015 the Romanian supervisor extended the Balance Sheet Review exercise to encompass a further 21 insurance companies covering a further 15 per cent of the market. Results from this group revealed that only 10 firms complied fully with the Solvency II solvency requirements: one additional insurer with negative own funds; seven failed to meet the SCR; and four had an MCR in excess of the SCR and met the SCR but not the MCR. Follow up action is again required.

In November 2015, a similar review was announced in relation to the Bulgaria insurance market. The Bulgarian Financial Supervision Commission (FSC) announced on 11 March 2016 that the review will commence in July with results published in December.

Conduct of business and consumer protection

Activities in the conduct of business and consumer protection area are driven at a national level. Examples of recent developments and measures taken are included below.

In the Czech Republic, an amendment to the Act on Intermediaries was submitted to the Parliament in March 2016 to end the payment of up-front initial commission for life insurance, requiring it to be spread over at least a five year period. At the time of writing, this legislation has not yet been passed. Other preparatory work in relation to the IDD and PRIIP (see Europe chapter) is also underway. The Czech National Bank (supervisor) has also started to use market benchmarks to monitor conduct risk.

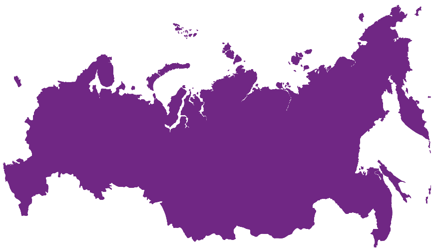
In Poland, the Polish Competition and Consumer Protection Authority commenced legal actions against several life insurance companies in relation to surrender fees charged. Most of these actions have been concluded by negotiations and agreements between the life companies and the authority, with agreement that the level of surrender fees to be charged in the future will decrease significantly. The affected companies also committed to informing their costumers about the change in surrender charges levels. The agreements did not cover previous surrender fees charged.

The Lithuanian supervisor also had concerns regarding charges in relation to unit-linked insurance products. In 2015, it published a study looking at the administrative fees deducted, investment return and transparency of unit-linked insurance products, using data from 2013 and 2014. Following consultation with the insurance industry in 2016, it was announced that changes will be made to the law in the following areas:

- Insurance companies will not be allowed to deduct administrative fees if investment management of unit-linked products is outsourced to a third party
- All potential customers will have to be provided with clear examples about total unit-linked insurance contract fess and inflation impacts before signing the contract
- The term over which insurance companies will be able to spread acquisition costs will increase from the current two years to no less than 3 years
- Surrender fees will be capped to no more than 2 per cent of accumulated value with a maximum fee of 50 euro
- Current and potential customers should receive correct and not misleading information and promotional information has to be identifiable.

In Hungary, the regulator has started widespread negotiations about the so called "ethical insurer" concept. It is unclear at the moment if this initiative will become a law (or other legal norm) or a guidance/recommendation issued by the supervisory authority. The "ethical insurer" concept is likely to include rules/guidance on the sales process, the information to be provided to the policyholder at both initial point of sale and on a regular basis, the charges that are applied to policyholder accounts, surrender process and penalties and similar matters. Insurers are currently seeking greater clarity regarding application of the underlying principles.

The National Bank of Slovakia has recently created a separate department for consumer protection matters, demonstrating its developing interest in the topic.



Russia

In 2015, the development of the Russian insurance sector was challenged by negative economic factors, caused by low oil prices, exchange rate volatility and continuing Western sanctions. As a result, premium growth rates fell while loss ratios increased. The largest lines of business became compulsory motor third-party liability (CMTPL), with motor own damage (MOD) insurance falling to the second place. In aggregate, these two lines approach 40 per cent of the insurance sector.

In 2015, the Central Bank of Russia (CBR) was focused on financial stability in the insurance sector. The CBR continuously controlled the quality and structure of insurers' assets, compliance with statutory ratios and adequacy of insurance reserves. During the year, 70 companies lost their licenses and the total number of operating insurers decreased to 478 companies.

The CBR was also actively developing new sector accounting rules (IFRS based) and rules on actuarial valuation.

ICP compliance

Russia is one of the countries subject to mandatory FSAP reviews every five years.

The latest FSAP review was conducted in March 2016 and assessed the financial sector strengths and vulnerabilities. It also reviewed the supervisory framework, contingency arrangements, and measures[26] to promote financial sector development[24]. The FSAP team also conducted assessments of the adherence to international standards in the areas of banking supervision, securities markets, and insurance.

The FSAP team observed that transformation of the CBR into a mega regulator has enhanced supervision of the financial sector. The authorities have also made considerable progress in establishing an effective macroprudential policy framework, and are encouraged to expand the range of macroprudential policy tools. Over the medium and longer terms, the diversification and deepening of the financial sector are priorities to support strong and sustainable economic growth[27]. The detailed findings of the review were not available at the date of writing of this report.

The previous FSAP review was carried in 2011 and did not include a formal assessment of compliance with ICPs. Nevertheless, the FSAP did indicate that the supervisory framework in Russia departed from the ICPs in a number of areas. In particular:

- 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
- The supervisory authority's powers to disqualify key managers, including auditors and actuaries, who do not comply with the fit and proper requirements was also limited
- 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 authority

- Group-wide supervision was not incorporated into regulation, presenting 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

In 2015, the CBR further developed its new sector accounting standards, new chart of accounts and related transition rules. The new sector accounting standards are based on currently effective IFRS and will be effective from 1 January 2017. The CBR facilitated and held a number of working groups, comprising representatives from the regulator, insurers and auditors to discuss and improve the quality of the new regulations. The CBR has also worked on implementation of XBRL-based financial reporting to improve the quality and transparency of financial data.

Early in 2016, two federal standards on actuarial activity were enacted by the CBR. These standards describe general principles of non-life and life insurance reserves estimation, including definitions, documentation requirements, recommendations on data and actuarial methods. Starting from 2015, insurers are required to obtain an actuarial report on insurance reserves, prepared by a licensed actuary (the “responsible actuary”).

In 2015, the CBR moved to create a new reinsurance body – the National reinsurance company. This company is expected to provide reinsurance protection for sanctioned-clients, government orders and catastrophe related risks.

In 2015, the CBR was also focused on financial soundness and stability of insurance companies and implemented a number of additional regulations, including introduction of the following:

- Statutory capital-to-liabilities ratio (the CBR’s Directive №3743-U dated 2 July 2015)
- Procedures for transfer of insurance portfolio in the event of anti-bankruptcy procedures or license termination (the CBR’s Directive 480-P dated 24 July 2015)
- Specialized custodian, responsible for daily control of insurer’s compliance with the requirements for composition and structure of assets, accepted for coverage of insurance reserves and equity (the CBR’s Directive 474-P dated 10 June 2015)
- Insurers’ supervisors aimed at increasing the level of monitoring and control (the CBR’s Directive 447-P dated 22 December 2014).

Also, in 2015 the CBR introduced an obligatory insurance database (“bureau of insurance incidents”), which contains information on MOD-policies and allows traces of losses history for a specific client, potentially preventing fraudulent claims. Another improvement in motor business relates to the introduction of electronic policies for motor insurance.

Conduct of business and consumer protection

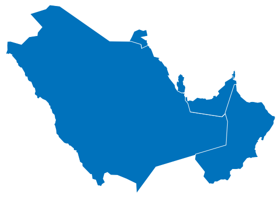
In 2015, the insurance coverage and tariffs for CMTPL insurance were increased significantly. Insurance coverage was raised by more than

three times for property damage, starting 1 October 2014, and for injuries and death, starting 1 April 2015.

In 2015, the Federal Antimonopoly Service of Russia (FAS) was challenging insurers in relation to additional services sold with CMTPL policies. FAS proposed the introduction of a statutory 10 days cooling-down period, during which the customer is allowed to terminate any additional services and receive back the full amount of paid premium.

Middle East

Gulf Cooperation Council (GCC)



The insurance sector in the GCC region comprises six countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia (KSA), and United Arab Emirates (UAE). These countries are all evolving their regulatory regimes, but at different paces, and in some of these countries there is little that has changed since our 2014 report. Generic developments are covered in the following paragraphs, followed by specific country developments.

ICP compliance

Kuwait is the only country in the GCC countries that is not a member of the IAIS. As one one of the smaller insurance markets in the GCC region and mainly domestic insurers, it has no independent regulator, However, discussions continue around establishing an independent insurance supervisor and modernizing insurance regulations here.

For the rest of the GCC countries, implementation of the ICPs and overall modernization of the insurance sector continues to be a priority.

However, this can be a slow process. For example, the amendments to the Oman Insurance Companies Law announced in 2014 w ith covered in last year's report will not become effective until 2017.

Significant developments in the other GCC countries are covered in the sections that follow.

Prudential developments

There are signs that the region as a whole is moving to a more risk-based approach to supervision.

Conduct of business and consumer protection

The general insurance industry in the GCC is dominated by the motor and medical classes of business. Shari'a-compliant insurance products such as takaful continue to dominate the savings market and life insurers.

"For the rest of the GCC countries, implementation of the ICPs and overall modernization of the insurance sector continues to be a priority."

Kingdom of Bahrain

The Central Bank of Bahrain (CBB) has been proactively reviewing its rules on risk management, not only in light of developments both globally and regionally, but also to enhance Bahrain's position as a leading jurisdiction of choice and a global financial center, providing an international standard of infrastructure and a regulatory environment and necessary support to enable innovative solutions. However, no major changes to the requirements were introduced in 2015.

The takaful industry in Bahrain has experienced remarkable growth in terms of gross contributions over the last ten years and the CBB is closing monitoring the sector to ensure best practice and procedures are applied by firms operating in this area.

ICP compliance

No significant progress has been made since our last update, but the CBB's intention to comply remains. Regulatory focus has primarily been directed towards ensuring implementation of the revised takaful regulations and review of financial condition reports that commenced in late 2014.

Prudential developments

Bahrain's solvency capital framework is not yet risk-based.

As part of the CBB's continuing development of the regulatory framework, the CBB is currently working on the following projects:

- **Takaful companies**: treatment of Qard Hassan (free interest loans) in the financial statements

- **Insurance companies**: establishing a framework to agree and settle motors claims from other insurance companies.

Conduct of business and consumer protection

One of the major accomplishments of the CBB's insurance regulatory regime and Bahrain Insurance Association (BIA) in 2015 has been the introduction of the Motor Compensation Fund. The objectives of the fund are mainly to compensate victims of motor accidents as a result of hit-and-run accidents by uninsured vehicles and to emphasize the social responsibility of insurance firms towards the general public.

State of Qatar

Qatar has the third largest insurance market in the GCC, with total premiums of $2.2bn. The Qatari insurance market is competitive, but is dominated by the big five national insurance companies, all of which are listed on the Qatar Stock Exchange (QSE). 14 insurers currently operate in Qatar, with a further 17 operating in the Qatar Financial Center (QFC), which was created in 2005 to enhance capacity and competitiveness of Qatar's financial sector. Insurance companies now form a large component of the QFC. Although they operate within a parallel regulatory framework to other insurers, standards have been raised by all insurance players in the market. Approximately one third of the insurance market comprises takaful firms.

In common with the rest of the GCC insurance market, Qatar suffers from low market penetration levels, market fragmentation, and an over-reliance on reinsurance. However, demand driven by infrastructure spending in preparation for the World Cup and the continued rise of demand for takaful products are expected to be beneficial to the insurance sector.

ICP compliance

As set out under the prudential developments below, the Qatar Central Bank (QCB) issued instructions to insurance companies that became effective from 1 January 2015. These incorporate the basic principles of insurance covered by the ICPs. Similar instructions were issued by the Qatar Financial Centre Regulatory Authority (QFCRA) for the 17 firms operating in the QFC.

Prudential developments

The QCB instructions referenced above include requirements related to licensing, notifications to QCB (such as in relation to changes in ownership), group supervision and the processes to be followed on cessation of insurance business or converting business. The regulations also cover internal matters such as business controls, risk management, accounting and actuarial matters.

The new regulations stipulate that listed insurance companies must have a capital above QR100m or its risk-based capital. Unlisted insurance companies must have a capital higher than the figure set by the QCB or its risk-based capital. Branches of insurance companies must deposit QR35m.

These directives are the first of their kind to be issued by QCB and apply to all insurers other than those regulated by QFCRA. The new instructions apply from May 2016. All insurance, reinsurance, takaful and retakaful companies, as well as branches of foreign companies in the country, (other than those regulated by the QFCRA) are required to meet these instructions.

Conduct of business and consumer protection

There have been no regulatory initiatives in this area.

Kingdom of Saudi Arabia (KSA)

There are over 30 licensed insurers and one licensed reinsurer in the Kingdom of Saudi Arabia. The majority of the direct insurance business covers health and motor insurance. The insurance regulator is Saudi Arabian Monetary Agency (SAMA), although the health insurance sector is supervised by the Council of Co-operative Health Insurance (CCHI). All insurers are publically listed companies and subject to the requirements of the Capital Market Authority (CMA) and the Ministry of Commerce and Industry (MoCI). Companies with foreign shareholders are subject to the foreign investment laws administered by the Saudi Arabian General Investment Authority (SAGIA).

ICP compliance

KSA is part of the IAIS and actively participates in ICP developments.

Prudential developments

Insurance law and regulations are driven from the Law on Supervision of Co-operative Insurance Companies promulgated by Royal Decree M/5 dated 17/5/1405 H (Insurance Law) and the regulations subsequently issued by SAMA.

The insurance law and regulations are supplemented by instructions and circulars regularly issued to the market by SAMA.

SAMA has been proactive in introducing relevant rules and guidelines, which are not only expected to improve the overall regulatory environment but also the general health of insurance companies. On an annual basis, SAMA issues guidelines to insurance companies about underwriting and reserving. The rules and regulation issued recently are:

- Actuarial Work Regulation for Insurance and/or Reinsurance Companies, published on 7 January 2016
- Audit Committee Regulation in Insurance and/or Reinsurance Companies, published on 21 October 2015
- Insurance Corporate Governance Regulations, published on 21 October 2015
- Surplus Distribution Policy, published on 19 February 2015.

In addition, SAMA has circulated regulations in respect of actuaries, audit committees and corporate governance.

Conduct of business and consumer protection

There are a range of protections afforded to policyholders under the Insurance Law and regulations. Under the Code of Conduct 2008, insurers must:

- Act in an honest, transparent and fair manner
- Not unfairly discriminate between customers based on race or gender
- Fulfil all of their obligations to customers. This includes an obligation to:
  - Comply with all applicable laws, regulations and SAMA guidelines and
  - Follow international best practice, where these obligations have not been fully codified.

The Code of Conduct also requires that all information must be communicated in a timely manner to customers to enable them to make informed decisions and information must be accurate and clear.

SAMA has recently started to strictly enforce requirements that underwriters at insurance companies must not price business below the actuarial pricing model submitted to SAMA.

United Arab Emirates (UAE)

The insurance sector in the UAE is subject to supervision by the Insurance Authority, which was established in 2007. There are currently 60 insurance companies in UAE, comprising 34 national insurance companies and 26 foreign insurance companies, with a mix of composites, life only and non-life only providers. Of the national companies, 11 carry out takaful insurance.

ICP compliance

UAE has become the latest country in the region to take steps towards modernization of insurance sector regulation having regard to ICPs. The most significant development is the Insurance Authority Board Decision Number (25) of 2014 Pertinent to Financial Regulations for Insurance Companies (Financial Regulations), which came into force on 29 January 2015. However, a range of transitional requirements means that insurers will effectively have up to three years to fully comply with the Financial Regulations.

The Financial Regulations mark a new era in insurance regulation in the UAE, with a move to a more complex and risk-based approach to prudential regulation of the UAE insurance market. This replaces earlier UAE Insurance Law and implementing regulations, which required insurers to comply with minimum capital requirements, including a security deposit and a minimum guarantee fund, although, very little detail was provided as to the calculation of such requirements.

Prudential developments

The Financial Regulations are seen as a positive step forward in the development of insurance regulation and supervision and KPMG member firms believe this could provide a platform for further growth. They should result in a prudential regime which requires insurers to invest reserves in a manner appropriate for the evolving risks in their operations and capital positions, but without inhibiting growth. Key elements of the Financial Regulations are set out in the following sections.

Solvency and capital requirements

The Financial Regulations include:

- Risk-based solvency capital requirements
- Technical provisioning based on actuarial calculations
- Defined investment policies and enterprise risk management requirements
- Enhancement of governance and controls to match the supervisory expectations of the new regime.

The key tenets of the SCR, and indeed the wider Financial Regulations, follow the basic principles of Solvency II. The SCR is a risk-based (covering underwriting, market, liquidity, credit and operational risks) and is calculated to ensure an insurer is able to meet its obligations over the next 12 months with a probability of 99.5 per cent. A solvency template is prescribed by the Insurance Authority.

Insurers are required to maintain the higher of the:

- SCR
- Minimum guarantee fund (MGF), being the higher of:
  - not less than one third of the SCR or
  - the higher of a minimum amount to be specified by the Investment Authority for each type of business and a specified percentage of the net earned premium for each type of business and
- MCR, which is unchanged from previous requirements at AED100 million for direct insurers and AED250 million for reinsurers.

Notwithstanding these requirements, the UAE regime adopts a similar approach to Solvency II in setting a simplified and more standardized and streamlined basis of calculation. This aims to provide many of the benefits of a risk-based regime without certain of the more onerous elements of Solvency II which could potentially inhibit growth.

Overall, KPMG member firms believe that the UAE regime will bring many of Solvency II's benefits whilst encouraging both growth and consolidation across the insuran ce sector.

Actuarial reserving and financial reporting

All insurers are required to appoint an actuary, registered with the Insurance Authority, to review and approve technical provisions on a quarterly basis. In addition, the actuary is required to submit an annual report to the Insurance Authority detailing technical reserves and key risks going forward for a period of 12 months.

The prominent role of actuaries is a welcome addition to the industry. They can support the development of in-house technical skills and help to stabilize premium pricing.

Investment policies, asset allocation and risk management

Diversification of investments, and systems and controls for prudent investment management, are also important concepts under the Financial Regulations.

For investments, the main requirements in this area are based around Solvency II's prudent person principles. Investments should be adequately diversified to avoid excessive risk concentrations and to allow firms to respond adequately to changing economic circumstances. Firms must comply with new asset distribution and allocation limits, revised valuation requirements and the prudent person principle when making any investment decisions.

The Insurance Authority can force non-compliant insurers to invest in a specified manner and prohibit specified entities from investing in certain asset classes or individual assets. KPMG member firms expect that some insurers may be required to significantly restructure their current portfolios and overhaul existing investment policies and procedures to comply with these requirements.

It is also recognised that ERM policies and procedures should be enhanced. ERM should support a firm's investment policy, adequately monitor and stress test investments on a regular basis, and identify risks and weaknesses in the firm's controls and operations.

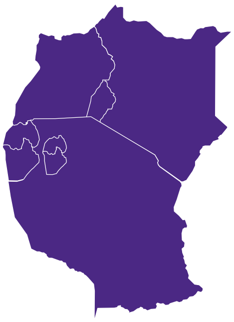
The Financial Regulations also allocate responsibilities within firms and require the board to approve risk appetites, review polices annually, and establish an investment committee and provide them with appropriate investment guidelines. The investment committee will have its own minimum level of responsibilities, including making, reviewing and monitoring investments.

Finally there are several responsibilities allocated to senior management in the governance and controls process.

Conduct of business and consumer protection

There have been no regulatory initiatives in this area.

Africa



"The EAC countries are on a constant forward momentum of strengthening their technological infrastructure to handle consumer complaints and education ..."

East African Community (EAC)

The East African Community (EAC) was established in 2000 as a regional intergovernmental organization of five Partner States, comprising Burundi, Kenya, Rwanda, Tanzania and Uganda. The Republic of South Sudan acceded to the Treaty on 15 April 2016 and will become a full Member shortly. Ethiopia has also expressed interest in joining the EAC and both countries are included at the end of this section.

The insurance regulators for the EAC countries are: Insurance Regulatory and Control Agency (ARCA) in Burundi, Insurance Regulatory Authority (IRA) in Kenya, National Bank of Rwanda (BNR) in Rwanda, Tanzania Insurance Regulatory Authority (TIRA) in Tanzania and Insurance Regulatory Authority (IRA) in Uganda. For Sudan, insurance activities are regulated by South Sudan Insurance and Re-Insurance (SSIR) Company and The National Bank of Ethiopia (NBE) is the Ethiopian insurance regulator.

Summarized here are the key trends happening in the EAC region; individual country developments are included on the pages that follow.

ICP compliance

To date, none of the EAC countries is on the list for mandatory FSAP review. However, EAC insurance supervisors continue working to build compliance with ICPs in order to comply with the proposed EAC risk-based law, which is still pending finalization. The EAC insurance regulators have developed an approach that seeks to improve the way business is conducted and guide harmonization efforts. These standards will require the regulators to apply the same rules and laws for supervision across the EAC countries. Uniform standards will apply in areas such as corporate governance, liquidation, investment and capital structure.

Regional integration

Kenya has been at the forefront of championing for regional integration within the EAC through the Insurance (Amendment) Act 2014, whose objective is to amend the Insurance Act. The Act has been amended to prohibit the registration of certain persons as insurers unless it is a body registered under the Companies Act and at least one third of the controlling interests are held by citizens of a partner state of the EAC.

In addition, the minimum capital requirements provisions under the Act now apply to citizens of the EAC Partner States. No brokers can be registered under the Act unless established as an incorporated company under the Act with a paid up capital of not less than KES 1 million, of which not less than 60 per cent must be owned by citizens of the EAC Partner States, or a partnership whose partners are all citizens of EAC Partner States, or by a corporation whose shares are wholly owned by EAC citizens or which is wholly owned by the Government.

Prudential developments

Kenya currently leads the East African bloc in the adoption and revision of risk and compliance models, respectively. As such, Kenya boasts a relatively mature supervisory infrastructure, acting as a leading practice model for other EAC Partner States, such as South Sudan and Uganda. In other EAC Partner States such as Burundi and South Sudan with frail regulatory frameworks, challenges remain in the areas of risk management and governance, data collection, and actuarial expertise.

Nonetheless, some countries are adopting a more open and collaborative approach to guide prudential developments. For example, Kenya, through the IRA, works directly with the Non-Bank Financial Institutions (NBFI) Insurance Group that offers technical support and advisory services to assist the insurance industry to meet regulatory challenges, strengthen its risk-management capabilities and ensure creation of sustainable insurance products. This has led to an increase in the adoption of new distribution channels, such as bancassurance and takaful insurance. KPMG member firms expect the increased adoption of such models as insurance companies across East Africa learn from each other through partnerships driven in part by an increase of acquisition activity in the sector.

Conduct of business and consumer protection

The East Africa Insurance Supervisors Association (EAISA) has been playing a key role in promoting protection of policy holders and has signed MoUs with all the regulators on this.

The EAC countries are on a constant forward momentum of strengthening their technological infrastructure 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.

Burundi

Burundi's insurance industry is relatively small when compared to other countries in the EAC region. The insurance market has only six insurers (private as well as partially state owned) and is dominated by car insurance products. The industry is regulated by ARCA and is governed by the Insurance Act, No 1/2 of 7 January 2014. This law is expected to bring about significant changes in the sector.

ICP compliance

The peer assessment review revealed that Burundi has partially observed 22 ICPs and not observed four ICPs. The regulator is focusing efforts on increasing compliance with the ICPs in order to comply with the proposed EAC risk-based law. In particular, ARCA has enhanced cross-border supervision of insurance groups by signing up to a MoU with EAISA relating to cross-border supervision and developing a manual for cross-border supervision and the supervision of insurance groups. The MoU facilitates cooperation and exchange of information for supervisory purposes across Partner States, helping to improve the financial stability of insurance markets and ensure adequate protection of policyholders.

Prudential developments

Despite the revisions made to the regulatory framework in 2014, challenges still remain in the areas of risk management and governance, data collection, and actuarial expertise.

ARCA is in the early stages of implementing Solvency I, and has already started introducing some measures of risk and proportionality into the supervisory framework. Although ARCA's focus remains largely on calculations and formulas under Solvency I, it is also assessing corporate governance, and the strength of auditors in insurance companies. ARCA is also considering creative ways to address the lack of actuaries in the market.

Law no. 1/02 of January 7 2014 provides for:

- Separation of non-life insurance and life insurance companies
- Increase of the minimum share capital to BIF1 billion ($0.6 Million) for non-life insurance companies and BIF500 million ($0.3 Million) for life insurance companies
- Limitation of the participation in the shareholding of an insurance company by a natural or legal person to 20 per cent
- Establishment of procedures to guarantee solvency and prevent sudden bankruptcy and
- Regulation on the activities of insurance brokers.

Conduct of business and consumer protection

The MoU between ARCA and EAISA seeks to promote adequate protection of policyholders and to ensure a conducive regulatory environment for stakeholders.

Key sections of the insurance code sees to address conduct of business and consumer protection. Specifically, under Section 402 of the Insurance Code, insurance companies and intermediaries are required to give fair treatment to their clients, taking into consideration their information needs. Corporate standards for all insurers and insurance agents regarding their relationships with consumers have also been outlined.

The code also requires ARCA to ensure insurers and insurance intermediaries process complaints and claims effectively and fairly, according to a procedure that is simple, easily accessible and fair.

Kenya

In 2015, the Kenyan insurance regulatory framework underwent some changes in a bid to enhance the Risk Based Supervision. In particular, through the Finance Act 2015, the Insurance Act was amended including in relation to the minimum capital requirements, introducing the concept of risk capital and reviewing the requirements for registration of insurance agents. For ease of supervision, IRA introduced regulations and guidelines to complement these requirements. The amendments to the Insurance Act also seeks to give more regulatory authority to IRA and not the Minister of Finance (Cabinet Secretary for National Treasury).

In addition, IRA has developed an index–based insurance policy paper that maps out the future path for Kenya's index-based insurance regulation and supervision and introduced regulations on the same.

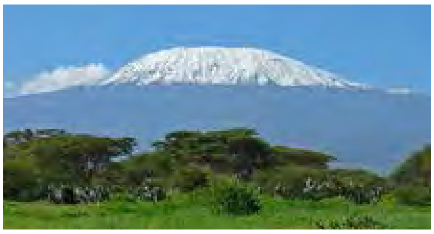
The authority issued industry circulars to address specific issues such as submission of annual returns through the Electronic regulatory system (ERS), application for renewal of registration of insurers and reinsurers for the year 2016, circular of entities associated to Al-Shabaab and performance of new or repackaged products.

ICP compliance

Kenya is not on the list for mandatory FSAP review. The IRA however, has made significant progress to ensure compliance with the ICPs, key being amendment of the Insurance Act in line with the Risk Based Supervision (RBS) Framework. The IRA is particularly keen on implementing the provisions on ICP 17 on capital adequacy and ICP 15 on investment and has issued guidelines on these.

Prudential developments

With the new act, there is no longer a distinction in the solvency margin requirements between a general and long term insurer. It is mandatory for both to keep total admitted assets of not less than the sum of the total admitted liabilities and the capital adequacy ratio, as may be determined by the IRA. In addition, the IRA has the discretion to prescribe the method of determining admitted assets and liabilities.



The provisions on minimum capital requirements have been amended to not only increase the required monetary value but also to introduce additional components, such as risk-based capital or a percentage of net earned premiums or liabilities. General insurers will be required to increase their paid up capital to KES 600 million (from KES 300 million) or risk-based capital determined from time to time or 20 per cent of the net earned premiums of the preceding financial year, whichever is higher. Long-term insurers will be required to provide paid up capital of KES 400 million or risk-based capital, determined by the IRA, from time to time or 5 per cent of the liabilities of the life business for the financial year, whichever is higher.

Mergers & acquisitions (M&A) of insurance companies is rising in Kenya as shareholders seek to meet the new capital requirements, boost revenue growth, improve profitability and enjoy economies of scale. Some M&A activity is also a result of the legal requirement that no one individual should own more than 25 per cent of the share capital of an insurance company.

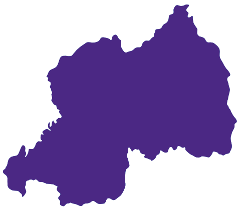
Conduct of business and consumer protection

The IRA is committed to consumer protection in the insurance industry by having well laid down consumer complaints procedures. IRA has an online compliant submission that is accessible to all consumers. Consumer education is also channeled through articles and brochures with insurance industry information and the products available in the market.

In order to increase insurance coverage, IRA, with support of key stakeholders, has initiated aggressive consumer education and awareness campaigns across Kenya with the aim of increasing public awareness on the need for and benefits of insurance, especially microinsurance.

The IRA also launched a treating customer fairly (TCF) initiative geared towards better customer handling, improving the quality and quantity of customer care received and improved claims settlement in the industry.

The sector is also guided by the guidelines on market conduct for insurers and insurance intermediaries issued in 2013 and 2011 respectively.



Rwanda

Compared to its counterparts in East Africa, Rwanda has a dynamic market augmented by a highly conducive business environment, giving it good potential to reduce its insurance protection gap. The potential for growth is very large given the low penetration rates (about 1 per cent) and attempts to innovate through automation, optimization and financial inclusion strategies targeted at segments at the "Bottom of the Pyramid" (BOP). This is leading to increased interest by foreign firms seeking to grow by entry into this emerging market.

Insurance is currently governed by the Insurance Law No. 52 of 2008, together with various regulations on different aspects of the industry. In 2015, with the help of the World Bank, BNR finalized the development of the draft new insurance law which, following its approval by the board of directors, will now be tabled before the cabinet. The board also approved the policy on insurance and pension schemes.

ICP compliance

The 2011 peer review assessment revealed that Rwanda has partially observed ICPs 14, 24, 25 and 26 but has not observed ICP 21 on countering fraud in insurance and ICP 23 on group-wide supervision. An insurance fraud risk survey for the East Africa region conducted by KPMG revealed that Rwanda was the lowest country regionally in percentage of fraudulent policies and claims, suggesting an increasing awareness of threat in the country. The survey highlights that there are still opportunities to build stronger risk frameworks through capacity building and strategic reviews.

Rwanda is putting a lot of emphasis on regulations around risk management for brokers and insurers. In addition, BNR plans to adopt the risk-based supervision model for the insurance sector.

Prudential developments

The insurance sector is well capitalized, as reflected by an average combined solvency margin ratio of 941 per cent, well above the required solvency margin of 100 per cent. The liquidity ratio stood at 312 per cent in 2015, again well above the prudential requirement of 150 per cent.

The minimum paid up capital is RWF 1 billion ($ 1.3 million) for both life and non-life business.

Long-term insurers are required to keep an excess of admitted assets over the aggregate value of admitted liabilities equivalent of at least RWF 500 million ($ 0.7 million). For general insurers, the requirement is RWF 500 million (USD 0.7 million) or 20 per cent of premiums net of reinsurance during the last previous year, whichever is greater.

Conduct of business and consumer protection

BNR's regulatory mandate is anchored on encouraging an environment in which the Rwandan insurance industry can flourish because consumers understand the nature of insurance and the potential benefits, and participants in the insurance sector are appropriately regulated.

According to a 2013 World Bank study, the legislative and regulatory framework for financial consumer protection in Rwanda was at a very early stage of development. There are, however, strong consumer protection provisions in the market conduct regulation for the insurance industry. Following the study, the World Bank has been supporting BNR to develop legal and regulatory frameworks for financial consumer protection.

BNR is focusing on conducting an education campaign for potential policyholders, to educate them on the features and benefits of insurance products, particularly for microinsurance products.

In 2015, the regulator issued a directive on customer care frameworks and another on the Financial Investigation Unit relating to the identification of customers, suspicious transactions reporting and record keeping requirements for reporting entities.

There are also requirements for certain information to be given to the insured and for the insurer to have proper procedures and an effective mechanism to deal with claims and complaints handling.

Tanzania

The insurance industry in Tanzania is governed by the Insurance Act 2009 (the Act). The Act provides guidelines on how to conduct sound insurance business. These guidelines include: maintenance of statutory deposits and technical reserves; securities investment; satisfactory reinsurance provisions; preservation of margins of solvency; and the availability of fit and proper individuals to run the insurance industry.

The Government of Tanzania is in the process of formulating a National Insurance Policy which aims to phase out current issues facing the insurance industry, including low access to insurance services, limited requirements for compulsory insurance and delays in bancassurance adoption as an alternative insurance distribution channel. The policy will also address emerging issues like microinsurance, bancassurance, Islamic insurance and agriculture insurance. The policy will also introduce compulsory insurance schemes thereby increasing the uptake of insurance.

TIRA is formulating takaful insurance regulations that will enhance development of Islamic insurance in the country. In addition, it is implementing the national microinsurance strategy. All these initiatives are geared towards achieving a 3 per cent penetration ratio by 2019.

ICP compliance

The 2011 peer review assessment revealed that Tanzania had 53 per cent compliance with the ICPs. The ICPs that were had been partially observed include ICP 7, 8, 14, 16 and 25, while those not observed are ICP 23, 24 and 26. With assistance from EAISA, TIRA intends to harmonize the legal and regulatory frameworks to ensure compliance with all ICPs.

Prudential developments

The Act requires the directors, as well as the auditor, of an insurance company to confirm its solvency position. General insurers' assets must exceed their liabilities by 2 per cent of net premiums, while the assets of a life insurer must exceed its liabilities by 8 per cent of its total liabilities. In 2015, the margin of solvency was the minimum amount for the prior year times the lesser of 1.1 or the ratio of the current year consumer price index (CPI) to the prior year CPI.

Tanzania has implemented a risk-based supervision model, commonly referred to as CARAMELS. The main objective of this system is enable off-site tests to be performed and risk assessment of insurance companies as well as on-site tests on companies deemed more risky. Up to date risk profile details of all insurance companies operating in Tanzania have been uploaded on to the system. Insurers that do not meet the solvency margin requirements are easily identified and remedial guidelines provided to ensure that they comply.

Conduct of business and consumer protection

TIRA is in the process of developing a national insurance education strategy. This is a five year blueprint on awareness creation and insurance education delivery in the country.

TIRA actively carries out consumer education aimed at raising awareness and sensitization of the public on its existence and its role in handling complaints against insurers. Consumer education is carried out through TV stations, radios, seminars and workshops, trade shows and exhibitions and the official website. TIRA is also at the forefront in combating fraud and malpractices in the industry through the prosecution of culprits.

The establishment of an Insurance Ombudsman is also aimed at enhancing efficiency in insurance complaint handling. This will play a major role in ensuring that the public's confidence in insurance services is enhanced.

Development organizations have also invested in research on the Tanzanian insurance sector.

Uganda

The Ugandan parliament approved the draft of the much awaited Finance Bill in January 2016. The parliament amended the Financial Institutions Act and ushered in Islamic banking which conforms to Islamic law. The act incorporated the creation of a fully-fledged fund to compensate customers when their bank is closed. This fund will consequently also become an insurance scheme for customers of commercial banks and microfinance institutions. The proposed new law will allow commercial banks to sell their own insurance products or to sell products of insurance companies. As a result of these changes, the insurance penetration rate is expected to grow from 0.8 per cent to 2.1 per cent in five years.

The IRA licensed 29 insurers to transact insurance business in 2016. With effect from September 2014, it stopped licensing composite insurers.

With the low insurance penetration rate and depreciation of the Ugandan shilling by 17.5 per cent, insurers are currently making losses, even before the effect of taxes on insurance products introduced in financial year 2014/2015 are felt.

The Anti-money Laundering Act, enacted in 2013, introduced a number of reporting and operational requirements for all accountable persons. To enhance players' ability to comply with the law, the Authority issued Anti-Money Laundering Guidelines, which require regulated entities to have internal Anti Money Laundering policies and conducted trainings on the same.

ICP Compliance

An assessment of the Insurance Act conducted by an international consultant revealed that that the Act was either non-compliant or only partially compliant with 25 of the 26 ICPs. With the support of the IMF and East AFRITAC (AFE), The IRA has developed a strategy for the implementation of risk-based Supervision (RBS) in a bid to enhance compliance with the ICPs.

Prudential developments

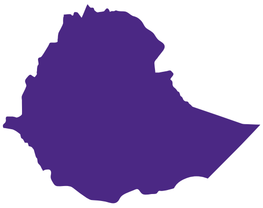
In July 2014, the IRA directed every insurer in the country to form separate companies dealing with life and general insurance business. The objective was to prevent a downturn in one type of business from spreading risk across the entire industry. Foreign insurance companies were also instructed to have no more than two non-Ugandans in their top management, with one of the top two directors being Ugandan. That same regulation also required at least half the members of the board of directors of each insurance company to reside inside Uganda. These measures were aimed at encouraging the development of local talent and capacity building within the industry.

Also in the pipeline is a health bill that is yet to be tabled in Parliament. The bill would make it compulsory for civil servants and formally employed Ugandans to make mandatory contributions to a National Social Health Insurance Scheme (SHI). However it is not currently clear that this will be passed.

Conduct of business and consumer protection

In order to enhance financial inclusion while ensuring adequate consumer protection, the IRA (with the support of the German Agency for International Cooperation (GIZ)) developed draft microinsurance regulations. It also reduced the minimum capital requirement for microinsurers from $900,000 to $30,000 in a bid to focus on consumer protection by promoting delivery of simple, yet high quality, products and services including mechanisms for grievance resolution.

The IRA continues to promote insurance education through awareness seminars and participation in annual trade shows. With support from World Bank, it has also embarked on the review and amendment of the Motor Vehicle Insurance (Third Party Risks) Act (2000).



Ethiopia

According to the IMF, Ethiopia is one of the fastest growing economies in the world, with an estimated gross domestic product (GDP) of US$159.2 billion in 2015. There are currently 17 insurers operating in Ethiopia, with the Ethiopian insurance industry restricted to domestic investors and all the insurance companies being wholly owned by local private shareholders.

ICP compliance

Ethiopia is not a member of the IAIS and currently has no regard to ICP compliance.

Prudential developments

Composite insurance business is still allowed in the country. The minimum share capital is 60 million Birr ($2.8 million) for general insurance, 15 million Birr ($0.7 million) for long-term insurance and 75 million Birr ($3.5 million) for composite insurance.

NBE has adopted the risk based supervision framework and issued risk management guidelines and has recently developed an Anti-Money Laundering law and an information exchange scheme on outstanding premiums.

Conduct of business and consumer protection

NBE has issued a directive regarding the development of a code of conduct for all insurers. The code of conduct will cover various items that will guide the board, senior management and the entire staff in their operations. The code prohibits actions that could lead to the insurer carrying out illegal activities such as fraud, money laundering, corruption and bribery. The code also discourages extreme risk taking activities and acceptance of gifts or favors.

NBE has also issued directives on licensing and supervision of microinsurance business.

South Sudan

The youngest of the East African countries is lagging behind its counterparts in insurance development and infrastructure. With only 3 per cent of the population having access to financial services, the country trails in terms of insurance penetration, at under 1 per cent. There are only nine insurers in the country. The county has adopted the Kenyan insurance regulatory framework which it intends to implement gradually.

Ghana

Ghana continues to experience a challenging economic environment. The country's debt levels continue increasing, with declining revenues due to falling commodity prices such as gold and crude oil and the Ghana Cedi continuing to depreciate against major foreign trading currencies, albeit at a slower pace compared to 2014. The country's consumer price indicators continue to rise, with Ghana's fiscal and external deficits leaving the country vulnerable to domestic and external shocks, including low oil prices and tight financing conditions. The result has been lower growth, high inflation and high interest rates. It is expected that fiscal slippage ahead of the November 2016 elections will further increase inflationary and financing pressures.

In April 2015, the IMF approved a 3-year Extended Credit Facility (ECF) Program for Ghana. A total of SDR664.20 million (US$918 million) will be paid to Ghana as balance of payments support over the 3-year period, in eight equal tranches. The disbursement has commenced, contributing in part to a more stable exchange rate since August 2015.

ICP compliance

As Ghana is a member of the IAIS, the National Insurance Commission (NIC) has regard to the ICPs when 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. These also require technical provisions to be based on actuarial methods, with solvency computations based on ICPs.

NIC has strengthened its monitoring processes during 2015, with more stringent principles applied to Insurers with foreign ownership, although local insurance companies are also making efforts to comply.

Prudential developments

The NIC, is addressing limitation in the existing Insurance Act through a draft Bill, which is pending approval from Ghana's Parliament. This will address both prudential and consumer related matters, including supporting product development for certain critical sectors, prioritize licensing for specialized insurers dealing in microinsurance and agriculture insurance and require insurance companies to put in place new governance systems and risk management frameworks.

The NIC also uses regulatory directives to drive changes in the industry. Key aspects include:

- From 31 December 2015, all insurance companies must estimate their incurred but not reported (IBNR) claims using an actuarial based method

- Confirmation of the "No Premium No Cover" policy that has applied since April 2014, requiring insurance companies to collect premiums upfront before providing insurance cover

- Establishment of a risk management framework to strengthen internal controls, including the establishment of compliance, risk management, actuarial function and internal audit control functions

- Establishing a process for ranking insurance companies, based on technical provisions, policies, procedures and practices in place to mitigate enterprise wide risk

- Provision of guidance on corporate governance, including the reporting structures between the oversight functions mentioned above and board members

- Mandatory auditor rotation and a requirement for audit firms/teams to have actuarial resources to enable assessment of adequacy of technical provisions.

The NIC has also developed a governance and risk management framework to both assist insurers with the new framework and to support consistent supervision and monitoring of the insurance companies. The framework, which became effective on 1 January 2016, has clear requirements which insurers must implement and maintain. This includes:

- Define duties and responsibilities of the board of directors, including board composition, responsibilities and committees

- Establish a robust corporate governance framework that provides sound and prudent management and oversight of insurance business to protect the interest of the policyholders

- Establish and maintain the control functions set out above, together with any other functions appropriate for the nature, scale and complexity of the insurer's business

- Establish strategies, policies, procedures and controls

- Establish and maintain procedures and controls to identify actual or potential conflicts of interest.

In terms of adequacy requirements, the 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. In addition, the new minimum paid up capital requirement increase (from GHC 5 million to GHC 15 million) became effective from January 2016. Insurers are also required to comply with the target Capital Adequacy Ratio. This was a minimum of 130 per cent at the end of 2015, but increases to 140 per cent in June 2016 and 150 per cent by the end of 2016. Insurers must also deposit 10 per cent of the minimum capital requirement in an escrow account with Bank of Ghana.

The minimum paid up capital requirement for reinsurers is GHC25 million while, for insurance intermediaries, insurance brokers and loss adjusters, the requirement is GHC 250,000.

Conduct of business and consumer protection

Following the significant developments regarding the "No Premium No Cover" and faster claims processing requirements made in 2014, there have been fewer new conduct related initiatives in 2015.

Low financial literacy remains a barrier to customer perception of the benefits of insurance. This, as well as the claim process, is limiting insurance growth. Belief systems and culture continue to influence the rate of update of insurance in Ghana. Concerns expressed by potential policyholders include claims payment delays, disagreements regarding claim settlement amounts and an inability to pay premiums by instalments. The 2014 claims settlement requirements went part way to address these concerns, but there is a growing belief that Ghana needs a financial ombudsman service to deal with complaints.

The Ghana Insurers Association (GIA) increased third party motor insurance premiums by around 500 per cent in 2015 as a result of the increase in road accidents increasing claims. This was the first increase since 2010. In addition, car owners may now purchase insurance on a short-term basis – monthly or quarterly.

Microinsurance and mobile operators driven products are expected to define the future of insurance industry in Ghana. Microinsurance business is growing and will boost insurance penetration rate. The NIC has been encouraging insurance companies to strengthen their microinsurance business. Digital collaboration between insurers and telecommunication companies will continue to define the industry's future. Financial education and awareness creation must be incorporated into business models going forward, as customer education on the benefits of insurance remains low in the country.

Nigeria

"

Growth in life premiums is strong, helped by the compulsory group life insurance and annuity products, and there has been an improved quality of insurers' books since the enforcement of the "No premium. No cover" policy.

"

Nigeria remains the second largest insurance industry in Africa, following South Africa, and is well placed for growth due to its growing population, emergence of clear middle class and higher disposable incomes. However, insurance penetration rates remain less than 1 per cent of GDP. This is leading to an increase in foreign insurers and inorganic growth through consolidation by local players.

Insurance is regulated by National Insurance Commission (NAICOM). It has improved efforts in deepening the market through the Market Development and Restructuring Initiative (MDRI), which made six classes of insurance compulsory.

Growth in life premiums is strong, helped by the compulsory group life insurance and annuity products, and there has been an improved quality of insurers' books since the enforcement of the "No premium. No cover" policy. The Nigerian insurance industry is also demonstrating an increased use of social and mobile technology, with some notable key partnership between the industry and the telecommunication industry.

ICP compliance

NAICOM is a member of the IAIS. Inspired by the ICPs, its priorities are to drive compliance with ICP 16 on enterprise risk management for solvency purposes and ICP 17 on capital adequacy.

Prudential development

In 2015, NAICOM issued a document entitled *Prudential Guidelines for Insurers and Reinsurers in Nigeria,* intended to serve as a comprehensive guideline for the conduct of insurance and reinsurance businesses in Nigeria. Section 6 of the paper enforces the establishment on a risk management framework (RMF) for insurance companies. The RMF is expected to address all material risks (as required by ICP 16) including, but not limited to, market/investment, credit, operational, liquidity, reinsurance, underwriting, provisioning/reserving, claims management, group, reputational and legal/litigation risks.

The Prudential Guidelines were expected to be in force from September 2015, but following industry feedback are yet to be enforced.

In addition, NAICOM has announced its intention to replace its rule-based approach to supervision with a new risk-based approach from April 2016. This new model has the benefit of allowing assessment of insurers' risks using a formalized framework at regular intervals and would complement the implementation of the Prudential Guidelines in Nigeria.

Furthermore, NAICOM is also set to enforce the 2009 Code of Corporate Governance for insurance companies (the Code) in April 2016. This Code aims to ensure that the insurance industry in Nigeria operates through a good corporate governance framework which promotes transparent and efficient markets, and clearly articulates the division of responsibilities among different stakeholders in the industry.

Conduct of business and consumer protection

In July 2015, NAICOM released guidelines on market conduct and business practice for all insurance institutions in the country, marking the beginning of risk based supervision of the Nigerian insurance industry. These were partly adopted from the World Bank risk based supervision framework.

The guidelines include a framework for fair policy procedures and effective claims management. This includes trade practices and fair treatment of customers, operations, pricing, commission and associated returns, as well as the placement of foreign facultative reinsurance by brokers. Other areas covered include appointment, operation, expansion and documentation, registration requirements, accounts, returns harmonization with IFRS.

The objectives of the guidelines are to:

- Set minimum standards required from insurance institutions in their dealings with clients, policyholders and shareholders
- Establish strong market conduct among practitioners and stakeholders and serve to reduce mistrust that may exist between them.

NAICOM has a customer complaint bureau which helps in the settlement of disputes arising from non-settlement of claims. In order to improve claims settlement, NAICOM issued a directive in 2015 requiring all insurance companies to settle all outstanding claims on or before 30 September 2015. This was interpreted by the industry as meaning all verified claims, leaving only claims under verification outstanding, and most companies made efforts to comply with it. NAICOM is currently investigating 24 insurance companies which did not comply and may impose sanctions on them.

South Africa

> Under the twin peaks system, the FSCA will be responsible for the supervision of the conduct of business of all financial institutions, and the integrity of the financial markets.

The system of supervision of insurance in South Africa is undergoing significant change, moving to a twin peaks model of supervision. The proposed reform of the finance regulatory system in South Africa began in 2007. Essentially, the twin peaks will result in two primary regulators, with the Prudential Authority (PA) being the prudential regulator and the Financial Sector Conduct Authority (FSCA) being the new market conduct regulator. Current expectations are that the enacting Bill will be enacted towards the end of 2016 or early 2017.

ICP compliance

South Africa is a member of the IAIS and the latest IMF FSAP review was completed in 2014. This noted a number of planned changes and encouraged early implementation of these. It also recommended that action should be taken to improve the protection of policyholders in a winding-up scenario.

Prudential developments

The implementation date of the comprehensive risk-based capital regime, Solvency Assessment and Management (SAM), has been formally deferred to 1 January 2017. The delay provides time for the implementation of the Financial Sector Regulation Bill (FSR Bill), which will give effect to the twin peaks model of financial regulation.

The twin peaks reform process is to be implemented in a two phased approach. In the first phase, the two new regulatory authorities, being the PA and the FSCA, will be established. The FSR Bill creates and gives effect to the two new regulatory authorities. During this phase the FSB will be dissolved. The second phase will be focused on revising, consolidating and harmonizing the legal framework for prudential and market conduct in the financial sector.

On 27 October 2015, the Minister of Finance tabled the FSR Bill in Parliament. It will be considered by the Standing Committee on Finance in Parliament, with the intention for it to be enacted towards the end of 2016 or early 2017, to enable implementation soon thereafter. Once the FSR Bill has been processed by Parliament, this will be followed by the Insurance Bill, which will give effect to SAM.

The Insurance Bill will take the form of framework legislation. The application details of the SAM framework will be found in subordinate legislation, to be termed Insurance Prudential Standards, set by the PA. This will be released in tranches during 2016, with three rounds of consultation.

The PA's objective will be to maintain and enhance the safety and soundness of financial institutions that provide financial products.

Conduct of business and consumer protection

Under the twin peaks system, the FSCA will be responsible for the supervision of the conduct of business of all financial institutions, and the integrity of the financial markets.

In December 2014, the National Treasury published a discussion paper entitled, *Treating Customers Fairly in the Financial Sector: A Draft Market Conduct Policy Framework*

in South Africa (the Market Conduct paper), together with the FSR Bill. The two publications reflect important developments in the proposed reform of the financial regulatory system.

While the FSR Bill leaves the existing sector specific financial law intact, importantly, it does provide additional supervisory and enforcement powers to the regulators, in addition to those available in existing industry-specific law, to provide them with the necessary tools and scope of responsibility to function effectively in the existing regulatory framework without being hamstrung by gaps in existing laws.

The second phase of the implementation process contemplates structural changes relating to market conduct. It will involve the repeal of current sector specific laws and the introduction of a new streamlined and overarching financial sector legislation - the Conduct of Financial Institutions Act (COFI). Once the relevant primary legislation has been repealed and replaced as necessary, the focus will turn to similarly harmonizing relevant subordinate legislation.

The Market Conduct paper essentially introduces this second phase of the implementation process and provides information on the proposed approach to market conduct regulation in South Africa, explaining the policy framework within which the FSCA will operate. Importantly, it initiates and encourages public debate and comment on how best to achieve a stronger and more effective market conduct framework in the South African financial sector, outlining the role and functioning of the new dedicated Market Conduct Authority.

EIRR 2016 Acknowledgements

Americas region

Lorena Lardizabal
Senior Manager
KPMG in Argentina
T: +54 11 4891 5645
E: llardizabal@kpmg.com.ar

David Thompson
Director
KPMG in Bermuda
T: +1 (441) 295-5063
E: davidthompson@kpmg.bm

Richard Lightowler
Managing Director
KPMG in Bermuda
T: +1 441 295 5063
E: richardlightowler@kpmg.bm

Luciene T. Magalhães
Partner
KPMG in Brazil
T: +55 11 2183 3144
E: tmagalhaes@kpmg.com.br

Ricardo Anhesini
Partner
KPMG in Brazil
T: +55 11 2183 3141
E: rsouza@kpmg.com.br

Neil Parkinson
Partner
KPMG in Canada
T: +1 41 6777 3906
E: nparkenson@kpmg.ca

Roberto Muñoz Galaz
Partner
KPMG in Chile
T: +56 2 2798 1233
E: rmunoz@kpmg.com

Carl Groth
Managing Director
KPMG in the United States
T: +1 973 912 4873
E: chgroth@kpmg.com

Robert Kasinow
Director
KPMG in the United States
T: +1 973 912 4534
E: rkasinow@kpmg.com

ASPAC region

Hoa Bui
Partner
KPMG in Australia
T: +61 2 9335 8938
E: hbui@kpmg.com.au

Julian Braganza
Senior Consultant
KPMG in Australia
T: +61 2 9455 9883
E: jbraganza1@kpmg.com.au

Rob Curtis
Executive Director
KPMG in Australia
T: +61 3 9838 4692
E: rcurtis1@kpmg.com.au

Simon Donowho
Partner
KPMG in China
T: +852 2826 7105
E: simon.donowho@kpmg.com

Walkman Lee
Partner
KPMG in China
T: +86 10 8508 7043
E: walkman.lee@kpmg.com

Clarice Yen
Partner
KPMG in Hong Kong
T: +852 2522 6022
E: clarice.yen@kpmg.com

Estella Chiu
Partner
KPMG in Hong Kong
T: +852 2847 5035
E: restella.chiu@kpmg.com

Kailash Mittal
Director
KPMG in India
T: +91 (22) 3091 3364
E:kailashmittal@kpmg.com

Shashwat Sharma
Partner
KPMG in India
T: +91 22 3090 2547
E: shashwats@kpmg.com

Elisabeth Imelda
Partner
KPMG in Indonesia
T: +62 21 574 2333
E: elisabeth.imelda@kpmg.co.id

Barnaby Robson
Director
KPMG in Indonesia
T: +62215740877
E: Barnaby.Robson@kpmg.co.id

Susanto
Partner
KPMG in Indonesia
T: +62 21 574 2333
E: susanto@kpmg.co.id

Ikuo Hirakuri
Partner
KPMG in Japan
T: +81 3 3548 5101
E: ikuo.hirakuri@jp.kpmg.com

Ryuji Takahashi
Partner
KPMG in Japan
T: +81 3 3548 5125
E: ryuji.takahashi@jp.kpmg.com

Sung Min Cho
Partner
KPMG in Korea
T: +82 2 2112 0499
E: sungmincho@kr.kpmg.com

WanKong Mok
Partner
KPMG in Malaysia
T: +60 3 7721 3388
E: wmok@kpmg.com.my

Ceri Horwill
Partner
KPMG in New Zealand
T: +64 9367 5348
E: cerihorwill@kpmg.co.nz

Kay Baldock
Partner
KPMG in New Zealand
T: +64 9362 5316
E: kbaldock@kpmg.co.nz

Frank Dubois
Partner
KPMG in Singapore
T: +65 6411 8187
E: fdubois@kpmg.com.sg

Kam Yuen Lau
Partner
KPMG in Singapore
T: +65 6213 2550
E: kamyuenlau@kpmg.com.sg

EIRR 2016 Acknowledgements

Paul Brenchley
Director
KPMG in Singapore
T: +65 6411 8402
E: paulbrenchley@kpmg.com.sg

Albert Gau
Partner
KPMG in Taiwan
T: +886 2 8101 6666
E: agau@kpmg.com.tw

Grinni Hsiao
Partner
KPMG in Taiwan
T: +88 628 101 6666
E: grinnihsiao@kpmg.com.tw

Phoebe Chung
Partner
KPMG in Taiwan
T: +886 2 8101 6666
E: phoebechung@kpmg.com.tw

Nicholas Bellamy
Partner
KPMG in Thailand
T: +6626772125
E: nbellamy@kpmg.co.th

Nicholas Bellamy
Partner
KPMG in Thailand
T: +6626772125
E: nbellamy@kpmg.co.th

EMA

Manvinder Singh
Director
KPMG in Oman
T: +96895358780
E: manvindersingh@kpmg.com

Balasubramanian Mahesh
Partner
KPMG in Bahrain
T: +973 17224807
E: bmahesh@kpmg.com

Zdenek Tuma
Partner
KPMG in the Czech Republic
T: +42 02 2212 3390
E: ztuma@kpmg.cz

Amanor Dodoo
Partner
KPMG in Ghana
T: +233 302 770454
E: adodoo@kpmg.com

Anthony Sarpong
Partner
KPMG in Ghana
T: +233 302 770618
E: asarpong@kpmg.com

Frederick Dennis
Partner
KPMG in Ghana
T: +233 302 770454
E: FDennis@kpmg.com

Simon Nicholas
Director
KPMG in the Isle of Man
T: +44 1624 681002
E:snicholas@kpmg.co.im

Jackline Chibai
Senior Manager
KPMG in Kenya
T: +254 202 806000
E: jchibai@kpmg.co.ke

Jimmy Masinde
Director
KPMG in East Africa
T: +254 709 576 295
E: jmasinde@kpmg.co.ke

Rachel Wangari
Associate
KPMG in Kenya
T: +254 202 806000
E: rachelwangari@kpmg.co.ke

Bisi Lamikanra
Partner
KPMG in Nigeria
T: +234 127 18962
E: bisi.lamikanra@ng.kpmg.com

Balasubramanian Mahesh
Partner
KPMG in Bahrain
T: +973 17224807
E: bmahesh@kpmg.com

Kabir Okunlola
Partner in Nigeria
KPMG in Nigeria
T: +234 1271 8955
E: kabir.okunlola@ng.kpmg.com

Omar Mahmood
Partner
KPMG in Qatar
T: +974 44576444
E: omarmahmood@Kpmg.Com

Yacoub Hobeika
Partner
KPMG in Qatar
T: +974 44576444
E:yhobeika@kpmg.com

Julia Temkina
Partner
KPMG in Russia
T: +74959374444
E: JTemkina@kpmg.ru

Adrian Quinton
Partner
KPMG in Saudi Arabia
T: +966118748500
E: apquinton@kpmg.com

Gerdus Dixon
Partner
KPMG in South Africa
T: + 27 8 2492 8786
E: gerdus.dixon@kpmg.co.za

Pascal Sprenger
Partner
KPMG in Switzerland
T: +41 58 249 42 23
E: psprenger@kpmg.com

Janine Hawes
Director
KPMG in the UK
T: +44 20 7311 5261
E: janine.hawes@kpmg.co.uk

End notes

1 Capital Requirements for Supervised Institutions Significantly Engaged in Insurance, Federal Reserve System, dated 3 June 3 2016

2 Enhanced Prudential Standards for Systemically Important Insurance Companies, Federal Reserve System, dated 3 June 3 2016

3 NAIC Group Capital Calculation Recommendation, Nov. 19, 2015;

http://www.naic.org/documents/committees_e_grp_capital_wg_related_cap_calc_reccomendation.pdf

3 13 existing directives were repealed on 1 January 2016

4 Directive 2009/138/EC

5 Commission Delegated Regulation (EU) 2015/35

6 Three waves of Commission Implementing technical standards have been issued so far, comprising 13 papers which can be accessed from the relevant links on http://ec.europa.eu/finance/insurance/news/index_en.htm

7 30 Guideline papers have been issued by EIOPA and are available from https://eiopa.europa.eu/publications/eiopa-guidelines

8 Commission Delegated Regulation (EU) 2016/467ment 105 Filed 03/30/16

9 Commission Delegated Decision (EU) 2015/1602

10 Commission Delegated Decision (EU) 2016/310

11 Commission Delegated Decision (EU) 2016/309

12 Commission Delegated Decision (EU) 2015/2290

13 http://www.bankofengland.co.uk/pra/Documents/solvency2/imapprovals051215.pdf

14 EIOPA paper on Technical documentation of the methodology to derive EIOPA's risk-free interest rate term structures, dated 7 December 2015

15 Article 132 of the Solvency II Directive

16 Article 45 of the Solvency II Directive

17 Articles 314 and 375 of the Commission Delegated Regulation (EU) 2015/35

18 Regulation (EU) No 1286/2014

19 Directive (EU) 2016/97

20 Letter to EIOPA entitled "Request for EIOPA Technical Advice on possible delegated acts concerning the Insurance Distribution Directive", dated 24 February 2016

21 Technical Advice on Conflicts of Interest in direct and intermediated sales of insurance-based investment products, dated 30 January 2015

22 EIOPA Final Report on Public Consultation on Preparatory Guidelines on product oversight and governance arrangements by insurance undertakings and insurance distributors, dated 6 April 2016

23 Fourth Consumer Trends Report, dated 18 November 2015

24 EIOPA paper entitled EIOPA's Strategy towards a comprehensive risk-based and preventive framework for conduct of business supervision, dated 11 January 2016

25 KPMG classifies the region as covering: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.

26 http://www.imf.org/external/np/sec/pr/2016/pr16145.htm

27 http://www.imf.org/external/np/sec/pr/2016/pr16145.htm

Contacts

Gary Reader
Global Head of Insurance and EMA Coordinating Partner
KPMG
T: +44 20 7694 4040
E: gary.reader@kpmg.co.uk

Janine Hawes
European Insurance Regulatory Lead and Director
KPMG in the UK
T: +44 20 7311 5261
E: janine.hawes@kpmg.co.uk

Rob Curtis
Global Insurance Regulatory Lead and Executive Director
KPMG in Australia
T: +61 3 9838 4692
E: rcurtis1@kpmg.com.au

Robert Kasinow
Americas Insurance Regulatory Lead and Director
KPMG in the United States
T: +1 973 912 4534
E: rkasinow@kpmg.com

Jeremy Anderson
Chairman Global Financial Services
KPMG
T: +44 20 7311 5800
E: jeremy.anderson@kpmg.co.uk

Laura Hay
Americas Coordinating Insurance Partner
KPMG in the US
T: +1 212 872 3383
E: ljhay@kpmg.com

Simon Donowho
ASPAC Coordinating Insurance Partner
KPMG
T: +852 2826 7105
E: simon.donowho@kpmg.com

www.kpmg.com

kpmg.com/socialmedia

kpmg.com/app

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Designed by **CREATE** | CRT056293
Publication name: Evolving Insurance Risk and Regulation: Preparing for the future - Chapter 3