



Welcome to HFW's Insurance Bulletin, which is a summary of the key insurance and reinsurance regulatory announcements, market developments, court cases and legislative changes of the week.

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Should you require any further information or assistance on any of the issues dealt with here, please do not hesitate to contact any of the contributors to this bulletin, or your usual contact at HFW.

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hfw 1. Regulation and legislation

UK: IAIS consults on higher loss absorbency

The International Association of Insurance Supervisors (IAIS) has opened a consultation on its proposal to develop a higher loss absorbency (HLA) requirement for global systemically important insurers (G-SII). The foundations for the HLA requirement for G-SIIs concluded in July 2013 with the introduction of the basic capital requirement (BCR). The consultation seeks feedback on several options relating to the design, development and calibration of the HLA. The HLA will apply to all group activities, including non-insurance subsidiaries.

When the HLA requirement is implemented G-SIIs will be required to hold regulatory capital no less than the sum of the required capital amounts from the BCR and the HLA, which together will provide a consolidated group wide capital requirement for G-SIIs. The rationale behind this is to assist in the reduction of the probability and impact on the financial system of the distress or failure of a G-SII. When the globally comparable insurance capital standard (ICS) is developed, the HLA will then be reviewed as the ICS will replace the current basic capital requirement.

It is expected that the HLA will be delivered to the G20 for endorsement in November 2015 and will apply to G-SIIs from 2019. A copy of the full consultation paper can be found here: <http://email.practicallaw.com/c/1kQiRgVPTA0YRqE7rsXnSG3oh>

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NAZIM ALOM, ASSOCIATE

UK: FCA discussion paper on value of insurance products

The Financial Conduct Authority (FCA) has published a discussion paper (DP15/4) (<https://www.fca.org.uk/static/fca/documents/dp-15-4.pdf>) following the FCA's market study on general insurance add-ons in July 2014. We reported on this market study¹, in which the FCA found that competition in the general insurance add-on market was not working well for many consumers. The FCA believes that ineffective competition has led consumers to pay too much for their add-on products, often receiving poor value for money. The FCA appreciates that the concept of "value" is not universal to all consumers and the quality or benefits of an insurance product are more complex and multi-faceted but nevertheless explores a range of options for introducing a measure of value in general insurance contracts in the discussion paper.

The discussion paper sets out a number of measures that could be adopted by the FCA to improve transparency and increase value across the entire general insurance market, including options for introducing value measures. The FCA states that it is committed to introducing measures that increase competition on value.

In the discussion paper, the FCA identified some value measures relating to the publication of claims ratios, which the FCA believes will incentivise firms to improve product value. The measures identified by the FCA are intended to be indicators of value rather than precise measures and include the disclosure of (i) the claims ratio, (ii) claims frequencies, acceptance rates and average payouts, and (iii) claims ratio plus acceptance rates. The FCA considers that the claims ratio, either on its own or with another measure, is preferable to a package of options, such as the claims frequency, claims acceptance rate and average claim pay-out package as the claims ratio covers most elements of value in a single figure and potentially allows a greater degree of comparison. It will be interesting to see the responses to the consultation, as the potential

¹ http://www.hfw.com/Insurance-Bulletin-26-June-2015#page_4

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measures will be challenging to define due to different industry approaches to capturing or measuring the relevant pieces of information.

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UAE: Long-awaited draft financial services legislation issued by Abu Dhabi Global Market

On 29 June 2015, Abu Dhabi Global Markets (ADGM), the new financial free zone established in Abu Dhabi in 2013, issued its long-awaited financial services regulations and rules in draft form for public consultation.

From an initial review, the draft regulations are based on the UK's Financial Services and Markets Act and the Dubai Financial Services

Authority's (DFSA) Rulebook. The draft regulations include regulations in relation to conduct rules, management and marketing of funds and investment products, prudential regulations for investment, insurance intermediation and banking and the ADGM Financial Services Regulatory Authority's disciplinary and enforcement powers. Notably absent from the draft regulations are prudential regulations for re/insurers. We understand that in the coming weeks, the ADGM will publish further consultation papers, including in relation to draft rules regarding insurance.

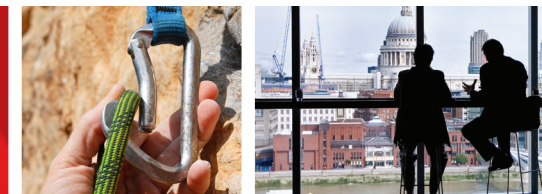
ADGM has invited market participants and all interested parties to submit their comments on the draft regulations by 11 August 2015. HFW are currently considering the draft regulations and will issue a more detailed briefing in due course.

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CAROL-ANN BURTON, CONSULTANT



hfw 2. HFW publications and events

HFW hosts cyber liability workshop

On 30 June 2015, we hosted a small roundtable workshop in conjunction with Powerscourt Public Relations Special Situations. HFW Consultant Peter Schwartz and Associate Thomas Coombs discussed under Chatham House Rules, how to manage reputational risk through information security, digital asset protection and cyber crime resilience.

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3. News

Europe: European Insurance and Occupational Pensions Authority (EIOPA) 2014 annual report

The European Insurance and Occupational Pensions Authority (EIOPA) published its annual report and outlined its achievements, including in relation to its efforts on the Solvency II regime. You can view the full report here: https://eiopa.europa.eu/Publications/Reports/EIOPA_ANNUAL_REPORT_2014.pdf.

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UK: FCA launches investigation into Quindell

The FCA has confirmed that it has launched an investigation into Quindell following allegations by its auditor, PwC, that it had undertaken “inappropriate” and “aggressive” accounting practices in relation to one of its businesses that it sold recently and in relation to its 2013 and 2014 financial statements. Quindell requested a temporary suspension of trading of its shares on AIM.

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