

CARICOM SINGLE MARKET & ECONOMY

SECTOR: FINANCIAL SERVICES – INSURANCE

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INTRODUCTION

Historically, insurance coverage provided to the Caribbean region was through branches and agencies of foreign insurance companies not domiciled within the Caribbean Jurisdictions¹. Over time, companies were incorporated in the various jurisdictions and some have developed so well that they have extended the provision of their services within the wider Caribbean. Within the CARICOM Community, insurance companies establish their presence within jurisdictions either as a subsidiary of a foreign insurer or as a branch. Business is also conducted via agents and the unpopular suitcase traders.

The regional insurance sector is composed of insurance companies, agents, brokers and salesmen. Additional service providers specific to this market are actuaries, accountants, lawyers, loss adjusters and reinsurers. Some of the regional insurance companies also provide reinsurance coverage to their counterparts and to themselves via captives. In addition to the traditional domestic insurance, some jurisdictions have ventured into allowing entities to carry on international insurance or offshore insurance by establishing offshore financial centers.

The insurance supervisory body varies per jurisdiction and in some cases within jurisdictions. Supervisory bodies can be statutory bodies, stand alone entities or departments within the Central Bank or the Ministry of Finance.

Communication between the supervisory authority and the industry is of absolute importance. The manner and extent to which this is done influences the efficient functioning of the insurance market within and among jurisdictions. Communication between and among other insurance supervisors or supervisors of financial entities will also affect the stability of the financial market within CARICOM Member States.

The objective of this paper is to present a 5-year plan to develop and strengthen the insurance sector within CARICOM. The paper will focus not on the past but on the future direction in which sound insurance supervision will lead the way for the development of an efficient and stable insurance market. As the majority of the CARICOM Single Market and Economy (“CSME”) Members are Less Developed Countries (“LDCs”) this paper will focus on a developmental approach² rather than from an advanced approach. It will consider the international insurance core principles and their application within the CARICOM Community. It will also consider the potential benefits to be derived from the adoption of the Core Principles and provide an insight on the necessary tools required for development of a sound insurance market.

While the objective is to create an efficient insurance market within the CARICOM Community under the CSME through the CARICOM Financial Services Agreement (“CFSA”), the paper will attempt to lay out the foundation for such creation by discussing the following areas:

¹ Jurisdictions to be used interchangeably for Member State or Country Some countries are dependent territories,

² Starting from zero to set up the foundation

- Establishment of the supervisory body
- Adoption of the Insurance Core Principles
- Ensuring industry's compliance with legislation
- Sharing of Information and Cooperation among Supervisory Bodies
- Sharing of information with other financial supervisors
- Recommendation on possible time-line for implementation during the 5 year period

Development of a stable and sound insurance market depends on natural market forces and political will to allow the proper supervision of the market. The foundation depends on the establishment of a sound supervisory regime.

CARICOM MEMBER STATES & INSURANCE ASSOCIATIONS

CARICOM is composed of 15 Member and 4 Associate Members. Of the members, Bahamas is the only one that has not signed on to the CSME. For purposes of insurance, St. Kitts and Nevis will be separated and treated as two jurisdictions. The reason is that each jurisdiction has its own insurance supervisor and they operate independently of each other.

The international insurance associations of supervisors to which Members of CARICOM may belong are:

- (1) The Caribbean Association of Insurance Regulators (“CAIR”),
- (2) The International Association of Insurance Supervisors (“IAIS”), and
- (3) The Offshore Group of Insurance Supervisors (“OGIS”).

CAIR and the IAIS mainly deal with domestic insurance supervision. IAIS has ventured into setting standards for the supervision of captives and reinsurance. OGIS deals with the supervision of offshore/international insurance supervision.

The IAIS as the leading standard setter provides benefits to its members through training and the issuance of guidance papers. OGIS has similar provisions. All three associations, including CAIR, bring together insurance supervisors to discuss insurance supervision, to share ideas on how to improve the sector and to develop case studies as training tools for the prevention of future insurance failures of fraud schemes.

The table below demonstrates the participation of CARICOM Member States in international supervisory associations:

CARICOM Members	CSME	CAIR	IAIS	OGIS
Antigua & Barbuda	LDC ³	member		
The Bahamas		member	member	member
Barbados	MDC ⁴	member	member	member
Belize	LDC	member	member	observer
Dominica	LDC	member		
Grenada	LDC	member		
Guyana	MDC	member		
Haiti	LDC			
Jamaica	MDC	member	member	
Montserrat	LDC	member		
Nevis	LDC	member	member	
St. Kitts	LDC	member		
St. Lucia	LDC	member		member
St. Vincent & the Grenadines	LDC	member		
Suriname	MDC	member	member	
Trinidad & Tobago	MDC	member	member	
Associate Members				
Bermuda			member	
British Virgin Islands		member	member	member
Cayman Islands		member	member	member
Turks & Caicos Islands		member	member	member

While CAIR and the IAIS formed around the same time in 1994, the IAIS is recognized as the international standard setter for insurance supervision and has produced a set of core principles considered fundamental to effective insurance supervision. The International Monetary Fund (“IMF”) and the World Bank use the IAIS’s Insurance Core Principles (“ICPs”) when conducting Financial Sector Assessments to assess the jurisdictions compliance with international standards. OGIS has also become a standard setter for the conduct of offshore insurance business.

The Caribbean jurisdictions have not been able to fully benefit from the work conducted by the IAIS because for the most part the jurisdictions have not been able to pay the membership fees. However, the Caribbean Regional Technical Assistance Centre (“CARTAC”) has assisted in providing valuable to training on the ICPs to the Caribbean and the IAIS Core Curriculum Project is being used as training material. In addition, CAIR has had a rough beginning as the support required for its development has been very limited due to budgetary constraints of member countries.

Some Members States or their Supervisors of Insurance are also members of the International Association of Insurance Fraud Agencies. Others may participate in the

³ LDC = less developed country

⁴ MDC= more developed country

meetings and training conferences of the National Association of Insurance Commissioners (“NAIC”) of the United States of America.

LEGISLATIVE FRAMEWORK

The legislative framework within each jurisdiction varies considerably but at the same time has similar provisions. Operative deficiencies have been encountered and are now being disclosed as a result of recent insurance failures.

In most CARICOM jurisdictions, insurance supervision meant that an officer within the Ministry of Finance⁵ was assigned to “supervise insurance”. This supervision meant that the officer would receive the financial statement, collect revenue and advise the company that it had to establish statutory funds/reserves. In these cases the Supervisor⁶ of Insurance was the Permanent Secretary in the Ministry of Finance. As a Public Officer, the officer assigned to insurance was “transferable” and the new assignee had to be trained all over again.

In recent times, insurance supervision has moved from the officer within the Ministry to a Department within the Ministry with a Supervisor of Insurance being a person other than the Permanent Secretary as in the case of Belize or to a department within a Single Regulatory Unit (“SRU”) as the case of Jamaica’s Financial Services Commission (“FSC”⁷) or the Grenada Authority for the Regulation of Financial Institutions (“GARFIN”⁸) in Grenada. In some jurisdictions, the Central Bank is the Supervisor as is the case in Trinidad and Tobago⁹. Irrespective of where the Insurance Supervisor is located, each one is expected to follow international supervisory standards. Each jurisdiction will be evaluated under the IAIS standards.

Apart from differences in location of the insurance supervisor, the insurance legislation governing the insurance industry dates back several years. In some cases the original version of the 1970 legislation remains in place. It must be noted that some Acts have undergone several amendments to update certain sections so the date may be misleading. Strangely enough, Suriname does not have insurance act and insurance is supervised under the Financial Institutions Act, but there are no specific provision for insurance.

⁵ Depending on the jurisdiction, the Minister responsible for insurance would be the Minister of Economic Development.

⁶ The Supervisor of Insurance is sometimes called Registrar or Superintendent of Insurance

⁷ The Jamaica FSC is responsible for the supervision of securities, private pensions and insurance. The Staff complement is a 102 with 19 of them devoted to insurance supervision.

⁸ GARFIN is an integrate supervisor that supervises offshore banks and companies, insurance, credit unions, development foundations and money transfer enterprises.

⁹ The Central Bank of Trinidad and Tobago supervises banks, insurance and registered pension plans.

The table below shows the date of the current Insurance Acts¹⁰ operating in the region.

Members	Date of Insurance Act
Antigua & Barbuda	2009
The Bahamas	2005 (amendments 2009)
Barbados	1996
Belize	2004
Dominica	1974
Grenada	1973
Guyana	1998
Haiti	
Jamaica	2001
Montserrat	2001
Nevis	2009
St. Kitts	2009
St. Lucia	1995
St. Vincent & the Grenadines	2003
Suriname	No Insurance Act
Trinidad & Tobago	1980
Associate Members	
Bermuda	1978 (amendments 2009)
British Virgin Islands	2009
Cayman Islands	2008
Turks & Caicos Islands	1998

Since 1993, CARICOM has been promoting harmonized insurance legislation and in some instances, some jurisdictions have interpreted this to mean that the Insurance Act in each jurisdiction will have the same wording. In 1995, CARICOM prepared sample legislation for the Insurance Act and the Motor vehicle Insurance (Third Party Risk) Act.

As a result of jurisdictions being assessed by the IMF, the World Bank, Caribbean Financial Action Task Force (“CFATF”) and other funding agencies, those jurisdictions that have undergone a Financial Assessment Sector Program (“FSAP”) and/or Article IV Consultations have worked towards modernizing their legislation in line with the international insurance core principles.

The recent failures of the CLICO companies will cement the need for modern legislation to handle conglomerates and allow for consolidated supervision. The need for the sharing of information and the collaboration between home and host supervisor will also form the basis for the establishment of College of Supervisors¹¹.

¹⁰ Some jurisdictions refer to the legislation as Ordinance

¹¹ College of Supervisors is a group of Supervisors who are responsible for the supervision of an insurer in its consolidated form, i.e. the holding company, the company and its subsidiaries and its branch/agency operations within various jurisdictions.

One item that is not normally considered by insurance supervisors is trade agreements especially where it relates to compliance with the World Trade Organization (“WTO”). Some member states were consulted during the negotiation of the Economic Partnership Agreement (“EPA”) and are now being consulted on the CFSA. As has been the case in most instances, trade agreements are handled by the Ministries of Trade and they seldom consult directly with stakeholders on the issue. In many cases, consultation would be done at the Ministerial (e.g. Permanent Secretary Etc.) level and not at the level of the technical personnel dealing with insurance.

DEVELOPMENT OF THE INSURANCE SECTOR

The best way to develop the Insurance sector in the region is by strengthening the supervisory bodies. Once the bodies are properly set up, the industry and the general public will gain confidence in the system. Even the Organization of the American States (“OAS”) has been making this recommendation since May 1996 when it stated

“that pertinent government circles more readily recognize in practice that the strength, growth and social responsiveness of the industry will directly commensurate with the strength, growth and social responsiveness on the industry’s regulatory function.”¹²

The Supervisor body must first be established and given the power to supervise the insurance sector. It should also have the power to exchange information with other supervisory bodies. The Insurance Core Principles should be used as a basis for establishing a framework which would allow for prudential insurance supervision. These core principles not only allow for supervision, but it also allows the establishment of a sound insurance market.

The first paragraph of the Introduction of the *IAIS Insurance Core principles and Methodology*¹³ reads:

“To contribute to economic growth, efficiently allocate resources, manage risk, and mobilize long-term savings, the insurance sector must operate on a financially sound basis. A well developed insurance sector also helps enhance overall efficiency of the financial system by reducing transaction costs, creating liquidity, and facilitating economies of scale in investment. A sound regulatory and supervisory system is

¹² “Insurance, Reinsurance and Catastrophe Protection in the Caribbean”, A Working Paper prepared in collaboration with the World Bank, Organization of American States General Secretariat Unit for Sustainable Development and Environment and the USAIS-OAS Caribbean Disaster Mitigation Project. May 1996

¹³ IAIS - Insurance Core Principles Approved in Singapore on 3 October 2003

necessary for maintaining efficient, safe, fair and stable insurance markets and for promoting the growth and competition of the sector. Such markets benefit and protect policyholders (and beneficiaries). Sound macroeconomic policies are also essential for the effective performance of insurance supervisory regimes.”

This paragraph encompasses all the items that the Caribbean insurance market requires. It is generally believed that the Insurance Core Principles¹⁴ will assist in the development of the regional insurance market, not only in the context of the CSME or the CFSA but would also prepare the indigenous companies to compete in markets within and external to CARICOM.

The Fifth paragraph of the preamble of the Draft CFSA¹⁵ reads:

“CONSCIOUS ALSO that the formulation and application of harmonized regional standards and best practices on a regional basis would enhance the international competitiveness of the financial services sector within the Caribbean Community and assist the regional institutions in the provision of financial services worldwide”.

The objective of this paragraph can only be achieved if the IAIS standards and best practices are adopted.

THE INSURANCE SUPERVISORY BODY

Each Member State should have an Insurance Act to be administered by a Supervisor of Insurance (“Supervisor”). The Supervisor must have a level of independence to allow him/her to implement the insurance legislation in a transparent and efficient manner.

THE INSURANCE ACT

The **Insurance Act** must give the Supervisor of Insurance certain key powers to allow proper supervision of the insurance sector. Some of these main powers should be:

1. to administer the Act
2. to licence insurers¹⁶ and intermediaries
3. to suspend and/or cancel the licence of insurers and intermediaries

¹⁴ See Appendix 1

¹⁵ Final Draft - April 2009

¹⁶ Refers to insurance companies and reinsurance companies

4. to approve insurance products
5. to receive and analyze financial statements
6. to conduct on-site inspection of companies and intermediaries
7. to receive and review actuarial valuations of insurers
8. To share information with other insurance supervisors, etc.

As demonstrated above the Insurance legislations vary and in the case of Suriname there is no Insurance Act. The Organization of the Eastern Caribbean States (“OECS”) has a uniform Insurance Act which some of its member states may adopt either as a whole or in part to update their current insurance legislation by the end of this year. Belize has a new working Draft Act which should replace the 2004 Insurance Act. The Bahamas introduced amendments to its Insurance Act which is being considered by the Senate at the moment. There are other jurisdictions that are contemplating the modernization of their insurance legislation.

The Insurance Act must also contain provisions for insurers to be required to:

- a. Submit audited financial statements¹⁷ on a timely basis (perhaps within 3 to 4 months after the end of the financial year) instead of six (6) months after the end of the financial year.
- b. Establish statutory deposit/funds or technical reserves
- c. Submit (at maximum) triennial actuarial valuations for life insurers

Regulations and Guidelines should also form part of the Insurance legislation.

THE SUPERVISOR OF INSURANCE

For most LDCs, insurance supervision is conducted from within the Ministry of Finance where the legal Supervisor of Insurance would be the Permanent Secretary and the Insurance Officer would be person responsible for day-to-day supervision. In some cases, where there is an attempt to set up an SRU as is the case of St. Kitts, one Officer is assigned to supervise the insurance sector.

The Office of the Supervisor of Insurance¹⁸, irrespective of its location, must be composed of one (1) Supervisor of Insurance and at the minimum three technical members of staff. The technical members of staff must be knowledgeable in insurance accounting (or must at least understand the difference between the common financial statements and the financial statements of insurance companies), insurance principles and must have an understanding of how insurance companies operate.

¹⁷ Some may require quarterly and monthly unaudited financial statements in addition to the audited financial statements

¹⁸ Sometimes referred to as Insurance Department

The technical staff should be able to understand and analyze the financial statement of an insurance company. S/he must be knowledgeable in calculating key financial ratios to identify any potential solvency issues. In addition to understanding the financial statements, the technical personnel must also be knowledgeable in insurance principles and must have an understanding of how the various types/classes of insurance work.

It would be useful to have an actuary and an attorney at law on staff. However, financial resources do not allow for these technical persons to be recruited. It is advisable that the Supervisor have access to these persons either by sharing the technical expertise held within other Government Departments (e.g. Pension Supervisor may have an actuary and the Attorney General's Ministry has lawyers) or by securing their services on a consulting basis. The latter may be more expensive.

Each staff member must be equipped with a computer to work. The computers may or may not have access to internet or email, but at least two persons within the Office/Department must have this tool. Email has become the most common means of communication. Documents that were mailed in the past are now scanned and emailed allowing a faster transmission of data and information, the original documents can be mailed at its own pace. Internet also allows for the gathering of information and for training when on-line training is afforded to insurance supervisors (and staff).

Other key equipment are printers, scanner and fax machine. Telephone access is also required for members of the public to contact the Supervisor of Insurance.

Irrespective of the location of the Supervisor of Insurance, s/he must have someone supervising him/her. The Supervisor of Insurance will have certain decision making powers. However, in order to ensure transparency and to prevent misuse of power or fraud, it is recommended that the Supervisor of Insurance report to someone e.g. the Permanent Secretary, the Minister responsible for Insurance, or Governor of the Central Bank. It is also important that the industry or the policyholders can appeal any decision taken by the Supervisor through a transparent process and the appeal be made to a Board of Appeal and not an individual.

ADOPTION OF THE IAIS INSURANCE CORE PRINCIPLES

CARICOM member states, with the exception of Suriname, already have an Insurance Act and may have some form of a Supervisory Authority to supervise the insurance industry.

In order to move forward, the jurisdictions should review their current situation against the IAIS ICPs. By completing the IAIS's Self-Assessment Questionnaire¹⁹

¹⁹ See Appendix II. – provided by the IAIS Secretariat.

they would get an insight on how to proceed. It will also prepare them for any upcoming IMF assessment or FSAP; especially since recently some Member States are seeking aid from the IMF to overcome the effects of the global financial crisis.

Once the self-assessment is completed, jurisdictions should seek assistance from CARTAC, FIRST²⁰, OSFI²¹ or other funding agencies that will assist them in drafting new legislation or on improving the provisions of existing legislation. Most importantly, the new provisions must adopt the IAIS ICPs **BUT** such provisions should be tailor made for the individual jurisdiction.

Apart from providing assistance in updating legislations, these funding agencies also provide technical assistance via training and in-house consultants to assist supervisory authorities in implementing the legislation and improving the supervisory tools.

ENSURING INDUSTRY COMPLIANCE WITH LEGISLATION

Team work between the industry and the Supervisor is essential. Both parties want development even though both play different roles. The industry must be advised of the policies or goal to be achieved and it should be given the opportunity to recommend the manner in which the goals can be achieved.

For example, in order for Supervisors to review the solvency and the business of the industry, it requires that insurers submit audited financial statements and un-audited quarterly financial statements. The Board of Directors of the insurers also needs the information so that it can make business projections. The insurers can recommend the format in which revenue accounts (profit & loss statements per class of business) can be set out to provide the information that both require. Having a uniform format eliminates the duplication of efforts (and cost). If the Supervisors regionally would agree to the same standardized format, then economies of scale within the CSME context could be achieved. As an example, the financial statements of CLICO (based in Barbados) would be prepared in a consolidated manner with each branch business being reported within the report. If the CLICO – Barbados operates in Suriname, Belize, Jamaica, these jurisdictions require both the consolidated and branch business financials. The one document could be used in all jurisdictions and the relevant branch accounts will already be within one document.

Constant (arm-length) communication is necessary between the Supervisor and the industry. The Supervisor should be in a position where s/he can administer the Insurance Act and introduce new Rules and Regulations to improve the supervision of the industry and at the same time s/he should be able to gather ideas from the

²⁰ FIRST – the Financial Sector Reform and Strengthening Initiative is a multi-donor grant facility providing technical assistance to promote financial sector strengthening. Its mission is to support growth and poverty reduction in the low and middle income countries through the promotion of robust and diverse financial sectors.

²¹ OSFI – Office of the Supervisor of Financial Institutions of Canada

industry on how best to achieve the implementation of the supervisory rules and regulations. Holding quarterly meetings between the Supervisor and the industry is also a useful communication tool where problems faced by the industry can be discussed and also where the Supervisor can advise the industry of its expectations within the next three months or onward.

The ability to impose penalties on the industry is also a tool to ensure compliance. The penalties must be meaningful and should be reasonable. If a company is constantly paying penalties then it should not be in the industry.

SHARING OF INFORMATION AND COOPERATION AMONG SUPERVISORY BODIES

Like in the example above, Supervisors would be getting the same financial statements (consolidated with each appropriate individual branch) and would be able to make useful comparisons. In the case where Colleges of Supervisors are formed, using the standardized format will facilitate the analysis of the financial status of an insurer (and the industry).

It is essential that the Supervisor of Insurance have within its legislation the ability to share information with other Supervisors and with other Financial Supervisors²². With the formation of conglomerates, financial supervisors need to ensure that the actions on one company within a group of companies do not affect the stability of the group or would create contagion within the financial system. There are some conglomerates that have banks and insurance companies within the group as would be the case of CL Financial.

Some jurisdictions require that a Memorandum of Understanding be signed before any information can be shared. It is very important that Supervisors recognize that any information shared should be held confidential and should not be used in Court or in any other way other than supervision without the expressed written approval of the provider (Supervisor) of such information. This is very essential, hence the reason for having one Supervisor of Insurance rather than a person who has multi-tasks as the Permanent Secretary for example.

In the context of the CSME and CFSA, the Supervisors, through CAIR, the College of Supervisors and the "Committee of Regulators"²³ should sign a Memorandum of Understanding that would lay out the grounds under which information can be shared and the use of such information. For insurance purposes there is a model used by the IAIS called the Multi-lateral Memorandum of Understanding.

²² Refers to the Supervisor of Banks, Credit Unions, Friendly Societies, and Securities etc.

²³ CAIR recommended to CARICOM that instead of setting up a "college of financial supervisors", that a "Committee of Financial Supervisors" composed of representatives of the CAIR, Caribbean Group of Banking Supervisors, various financial supervisory associations be convened to advise COFAP on issues affecting the financial systems of the region.

CSME AND INSURANCE

The CSME will provide for the movement of people and capital within the region. Through the CFSA, CARICOM “*seeks to obtain consensus for enactment of harmonized legal provisions to govern the financial services industry in the Community*”²⁴.

CARICOM Members States already have an insurance industry and has some form of insurance supervisor and a regional association of Insurance Supervisors. The three key elements for the market exist. In order to achieve the CFSA’s objective in context of the CSME it is important that a robust supervisory body be set up in each jurisdiction and that each Supervisor have the ability to share information with other Supervisors within the Region.

The industry, likewise, should have the ability to establish its presence within any of the member states, either as an insurer, branch or agency. Irrespective of its legal status within the jurisdiction, the insurer should be supervised by the Supervisor of that jurisdiction as if it were an insurance company domiciled in that jurisdiction. The level playing field should be set from the beginning.

In order to achieve a level playing field, jurisdictions will have to modify their *modus operandi* – this may affect the revenue generated by the different jurisdictions, so careful consideration must be given prior to any changes being effected. The basic requirements should be:

1. the insurer must be licensed to carry on insurance business in the jurisdiction (whether registered as an insurer, branch or agency);
2. the insurer must have a principal representative and a compliance officer who can accept legal process and would report and be the contact person with the Supervisor of Insurance;
3. the application and licence fees²⁵ must be uniformed for all applicants irrespective of domicile or status²⁶, however consideration must be given to cover the cost of due diligence to be conducted
4. where the capital of the insurer lies outside of the jurisdiction, each jurisdiction should require that companies not domiciled in its jurisdiction be required to vest assets in the amount of the minimum capital requirement (for those not using a risk-based capital model) required by the local insurer.
5. Penalties (if any) should be levied on the companies, irrespective of status
6. Requirements for regulatory submission should be the same for all companies, irrespective of legal status.

²⁴ CARICOM Financial Services Agreement, Explanatory Note, Final Draft – April 2009, CARICOM Secretariat

²⁵ Some may refer to these fees as registration fees

²⁶ May be a branch or agency of an insurer domiciled in another jurisdiction

7. The same deadlines for submissions should be adhered by the entire industry and branches or agencies must comply with them.
8. Branches and agencies of foreign insurers must be required to submit the consolidated and branch/agency business financials within the stipulated time frame of the jurisdiction.
9. statutory fund requirements should be applied to the entire industry with the funds being held within the jurisdiction²⁷

By leveling the playing field the industry will not feel threaten by entrants to the regional market. The Regional industry, however, must be aware that once the legislation sets out an open market approach with the “level playing field” that insurers from outside the region would also try to tap into the regional market. In any event, competition among insurers will be based on products and services rather than via protectionism by legislation. The level-playing field will also ensure compliance with WTO and will meet the Fifth paragraph of the preamble of the Draft CFSA²⁸ which reads:

“CONSCIOUS ALSO that the formulation and application of harmonized regional standards and best practices on a regional basis would enhance the international competitiveness of the financial services sector within the Caribbean Community and assist the regional institutions in the provision of financial services worldwide”.

The movement of capital within the Community has been a bit of contention for some member States. In the context of insurance, vesting assets within the jurisdiction in which the company operates will allow for some capital to be introduced into new markets. This capital can create investment within the jurisdiction and strengthen the financial base of that jurisdiction. Of course the capital base held at the home jurisdiction would have to consider the capital in “vested assets” held in the host jurisdictions where the company operates. Sharing of information between and among supervisors and consolidated supervision will be essential.

Other areas that can be affected under the CSME and the CFSA are the local asset ratio and collateral in cross-border market. Careful consideration must be provided to these two areas in the context of the insurance. The funds held by insurance companies are funds held in trust for policyholders. The industry makes a profit from the administration and investment of these funds and in some case the profit is shared with policyholders²⁹. After the CLICO investigation is completed, the real effect of the local-asset ratio and collateral will be best explained.

INSURANCE & TAXES

²⁷ This means that if a Government Bond of another jurisdiction is pledged to the statutory fund, then the Supervisor or trustee should hold that bond certificate within in the jurisdiction. .

²⁸ Final Draft - April 2009

²⁹ Profit sharing can be via mutual companies or dividends offered under participating life insurance policies

Consideration should be given in respect to taxes levied on the insurance industry. Some countries levy annual fees or premium tax on insurance companies based on the gross premium income generated the prior fiscal year. In addition to this, corporate tax is also levied on the companies. Taxes are also levied on investment income and on profit. Some jurisdictions have Double Taxation Agreements which would facilitate the payment of taxes.

In the context of the CSME and CFSA, the Income Tax/Internal Revenue Department should undertake a comprehensive overview on the taxes levied on the insurance industry before any firm recommendation on this item is made. However, in a region that is prone to catastrophes and where the insurance companies rely heavily on reinsurance, the industry must be allowed to build up its statutory fund or technical reserves. The statutory funds/technical reserves are composed of financial instruments which would generate a rate of return for the company. Because of the interest gained, this "investment" attracts a tax. Because the funds held in the statutory fund or technical reserves are for the payment of claims or insurance benefits to policyholders, it is recommendable that tax on investment not be levied on the investment return gained by these financial instruments. Collaboration between the Supervisor and the Tax authority would be in the form of confirmation of the assets (and their value) held within the statutory fund/technical reserves. By allowing a tax break here, the industry is able to build up its reserves and thus decreasing its reliance on the external reinsurance market.

Some jurisdictions may oppose the partial removal of tax on investment because it would pose a decrease in revenue collection. But the jurisdiction must also be aware that less reliance on the external reinsurance market means less need for foreign exchange. It must be noted that building up reserves does not mean that no reinsurance should be placed externally. The transfer of risk is very important especially to a region that is vulnerable to catastrophes.

INSURANCE & EDUCATION

The CSME and EPA considered education. In many jurisdictions insurance is not taught in high school or higher education as a subject on its own. Training in this field is very important.

Insurance Supervisors are trained in insurance supervision through 1-week training seminars or workshops sponsored by the CAIR, IAIS, or OGIS in conjunction with some funding agencies. The Toronto Center in Canada holds bi-annual training seminars for insurance supervisors. The IAIS, NAIC, and OGIS also provide training material which can be useful to train supervisors.

Insurance managers and agents would take insurance courses held by Insurance Institutes³⁰ or Colleges. It must be noted that not all jurisdictions have an insurance

³⁰ Insurance Institutes are set up by the industry and may not always be recognized by the Ministry of Education.

institute or college within their jurisdiction. On-line course are available via the Chartered Insurance Institute and the American Insurance Institute.

The CSME should contemplate education in insurance for managers and insurance personnel to improve the quality of persons operating in the industry. Great opportunities lie in insurance as it is a specialized field where insurance lawyers, insurance accountants, loss adjusters, and actuaries are rare species of professionals found in the region. Even the judiciary should be provided with education courses in insurance and it functions so that informed decisions can be taken.

RECOMMENDATIONS

1. Each Member State should have an established legal framework at least observant with the international standards.
2. The Supervisory Body should have the adequate human, technical and financial resources to meet its mandate.
3. The Supervisory Body must have the power to share information with other Supervisory Bodies in the supervision of regional insurers and conglomerates
4. The playing field has to be leveled where insurers irrespective of their legal status in any jurisdiction is supervised in the same manner as a domiciled company would.
5. taxes, fees and penalties levied on the industry must be the same to all insurers, irrespective of its legal status, operating within a jurisdiction
6. Accounting and actuarial requirements must be standardized for the industry regionally, with consolidated data and branch/agency data being supplied to the home and host supervisor of the company.
7. Tax on Investment income on funds held within the statutory fund/technical reserves should be removed to allow the build up of the reserves to reduce the reliance on reinsurance. Needs comprehensive review from the Revenue Department.

FIVE-YEAR PLAN

YEAR ONE

1. Complete the IAIS self-assessment questionnaire (should take no longer than 3 months)
2. If required, request technical assistance to update insurance legislation to provide for observance with the IAIS ICPs (request should be immediate and consultation on the legislation update should take about nine months)
3. If a Supervisory Authority has been established, strengthen the capacity of the technical staff and the Supervisor

- a. Request technical assistance for consultant to train (may require the requesting jurisdiction incur lodging expenses)
- b. Request other Supervisors (in more advance stages of supervision) to allow supervisory staff of another jurisdiction to be attached to their office for a period of 1 month to 3 months as part of training.
- c. Allow on-line insurance training for staff (will require payment of fees, books and provision of computer with internet access)
4. Internal Revenue departments to conduct exercise on possible changes in tax structure for insurance within each jurisdiction in respect of tax on investment income.
5. CAIR to present and discuss Draft MOU for the Sharing of Information between and Among Supervisors. Each jurisdiction is to ensure that the legal provision to share information is within the legislation.
6. Dialogue with other Financial Supervisors to form the Committee of Supervisors to advise Council of Financial Planning ("COFAP") on regional financial issues.
7. Establish a Supervisory College for Each Company

YEAR TWO

1. Present draft legislation for consultation with the industry and commence proceedings for enactment through Parliament (depending on the jurisdiction may take another year)
2. Internal Revenue should have completed its exercise to make recommendations on the pros and cons of the removal of tax on investment income generated by assets held within the statutory fund/technical reserves of insurers
3. Supervisors to sign MOU
4. Continue training of Supervisory staff
5. Jurisdictions should consider joining the IAIS as priority to maintain its constant update on international standards, receive training and other benefits of the IAIS
6. Jurisdictions should consider standardizing a uniform reporting format for insurance companies in the accounting and actuarial reports. (this exercise may take about 2 -3 years to complete)

YEAR THREE

If Insurance Act (new or amended format) enacted, appropriate Regulations to be passed or set into place. (May take a year to complete if exercise is new)

1. Continue training of Supervisory staff
2. Review of any proposed standardized accounting or actuarial format
3. Test the Supervisory College in respect of Consolidate Supervision of a Conglomerate.
4. draft/ design best practices in the supervision of conglomerates

5. Conduct study on the impact that a financial conglomerate can have within the region in the event of a failure and of success. (this may take two years to gather and analyze information)
6. The CLICO Case Study should have been completed, review the reasons for failure and devise mechanisms that would prevent such failure from reoccurring.
7. Complete IAIS Self- Assessment again to review progress made and adjustments required to meet goals set within the first three years.

YEAR FOUR and FIVE will depend on the progress made within the next three years. If the legislation takes more that two years to complete and the Supervisory body is not properly constituted, then observance of the current ICPs will not be reached. The exercise will have to commence from scratch with the new set of ICPs.

Conditions for effective insurance supervision

ICP 1 Conditions for effective insurance supervision

The supervisory system

ICP 2 Supervisory objectives

ICP 3 Supervisory authority

ICP 4 Supervisory process

ICP 5 Supervisory cooperation and information sharing

The supervised entity

ICP 6 Licensing

ICP 7 Suitability of persons

ICP 8 Changes in control and portfolio transfers

ICP 9 Corporate governance

ICP 10 Internal control

On-going supervision

ICP 11 Market analysis

ICP 12 Reporting to supervisors and off-site monitoring

ICP 13 On-site inspection

ICP 14 Preventive and corrective measures

ICP 15 Enforcement or sanctions

ICP 16 Winding-up and exit from the market

ICP 17 Group-wide supervision

Prudential requirements

ICP 18 Risk assessment and management

ICP 19 Insurance activity

ICP 20 Liabilities

ICP 21 Investments

ICP 22 Derivatives and similar commitments

ICP 23 Capital adequacy and solvency

Markets and consumers

ICP 24 Intermediaries

ICP 25 Consumer protection

ICP 27 Fraud

Anti-money laundering, combating the financing of terrorism

ICP 28 Anti-money laundering, combating the financing of terrorism (AML/CFT)

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS



INSURANCE CORE PRINCIPLES SELF-ASSESSMENT PROGRAMME

July 2004

IAIS Insurance Core Principles Self-assessment Programme

1. Background – Insurance Core Principles and Methodology

The Insurance Core Principles provide a globally-accepted framework for the regulation and supervision of the insurance sector. The International Association of Insurance Supervisors (IAIS) principles, standards and guidance papers expand on various aspects. They provide the basis for evaluating insurance legislation, and supervisory systems and procedures. They apply to the supervision of insurers and reinsurers. In October 2003, the IAIS revised and expanded its *Insurance Core Principles and Methodology*, offering new guidance for the effective operation of supervisory systems around the world. The 28 principles cover all aspects of insurance industry regulation and supervision – from licensing a company to winding it up. Principles addressing such issues as transparency of the supervisory process, assessment and management of risk, consumer protection, and anti-money laundering have been added.

2. The self-assessment programme

Periodically, insurance supervisors are expected to carry out a self-assessment to determine whether the Principles are being observed in their jurisdiction. This programme has therefore been developed to assist in such self-assessment. Through this programme, supervisors can identify strengths and weaknesses in their regulation and supervision of the insurance industry. This in turn helps in developing, prioritising and implementing action plans that are necessary to bring out improvements. Recognising the diversity in the regulatory frameworks and supervisory approaches, it is important to take into account the domestic context, industry, structure and stage of development of the financial system and overall macroeconomic conditions when carrying out the assessment. The ways and means of implementation will vary across jurisdictions. While good implementation practices should be kept in mind, there is no mandated method of implementation. In using this programme, members should not just focus on assigning grades to their supervisory systems. Instead, they should be used to review the systems objectively and comprehensively in order to improve them. Results of this programme will also serve to direct future work of the IAIS, for example in the area of setting standards or assisting jurisdictions in implementing the Principles.

This self-assessment programme consists of two parts:

- a) The “Summary Self-assessment”. Members are required to summarise in this part their assessments of their observance of each Insurance Core Principle. In addition, where Principles are not observed, members should include action plans for attaining observance (including a timeline for completion) or explain why they have no plan to observe. Members are also requested to indicate areas in which IAIS’ assistance is needed.
- b) The “Self-assessment Questionnaire”. This part provides the list of essential and advanced criteria for jurisdictions to evaluate the regulatory and supervisory system in their jurisdiction against the Insurance Core Principles. Members are also required to present a qualitative assessment of the degree of observance with each Principle. Responses to the questionnaire will form the basis for the Summary Assessment.

Members are advised to read carefully the Insurance Core Principles and Methodology, in particular the Annex 2 on Assessment Methodology, before conducting the self-assessment. Members may also wish to refer to Annex 1 (“References”) of this programme for a list of IAIS principles, standards and guidance papers, as well as selected documents from other international organisations, which expand on some of the Insurance Core Principles.

3. Assessment methodology

3.1 Assessment of essential criteria and advanced criteria

An essential criterion or an advanced criterion should be assessed using five categories: **observed, largely observed, partly observed, not observed, and not applicable.**

For a criterion to be considered **observed**, it is usually necessary that the authority has the legal authority to perform its tasks and that it exercises this authority to a satisfactory standard. Where the supervisory authority sets requirements it should also ensure that these requirements are implemented. Having the necessary resources is essential for the supervisory authority to effectively implement the requirements. Just to accept the power in the law is insufficient for full observance to be recorded against a criterion except where the criterion is specifically limited in this respect. In the event that the supervisor has a history of using a practice for which it has no explicit legal authority, the assessment may be considered as observed if the practice is clearly substantiated as common and undisputed.

For a criterion to be considered as **largely observed**, it is necessary that only minor shortcomings exist which do not raise any concerns about the authority’s ability to achieve full observance with the criterion. One example would be where a jurisdiction has in place a proposal to institute regulatory and supervisory reform that would lead to full observance, and it is not expected that this reform will be unduly delayed.

A criterion will be considered **partly observed** whenever, despite progress, the shortcomings are sufficient to raise doubts about the authority’s ability to achieve observance. For example, a jurisdiction has been actively discussing and developing reform proposals that would bring about full compliance, but substantial challenges related to economic and political structure of the jurisdiction remain, making successful and timely implementation of the proposals doubtful.

A criterion will be considered **not observed** whenever no substantive progress toward observance has been achieved.

A criterion would be considered **not applicable** whenever the criterion does not apply given the structural, legal and institutional features of a jurisdiction. For the purpose of this self-assessment programme, where the member submitting the response is not the entity responsible for implementing a criterion, it should nonetheless provide an assessment of that criterion. It should also clearly identify the entity/entities responsible for implementing that criterion.

The criteria should normally apply to all sectors of the insurance market. Where there are material differences between the levels of observance of a criterion between sectors that may lead different ratings being assigned to the sectors had the assessment been carried out separately (say, where a jurisdiction supervises direct insurers and not reinsurers), one may opt to present such differing ratings in this self-assessment programme.

Assessments are based solely on the laws, regulations and other supervisory requirements and practices that are in place at the time of assessment. Proposed improvements that have yet to be fully implemented can be noted in the assessment report by way of additional comments so as to give credit to important efforts made. Similarly, laws that do not meet with a satisfactory level of observance in practice cannot be recorded as “observed”. As a result, it is important to recognise *when* the assessment is conducted and to record this in the report.

3.2 Assessment of Principles

The level of observance for each Principle reflects the assessments of the essential criteria **only**. Assessment of advanced criteria should not be included in assessing observance with Principles. A Principle will be considered **observed** whenever all the essential criteria are considered to be observed or when all the essential criteria are observed except for a number that are considered not applicable. A Principle will be considered to be **not applicable** when the essential criteria are considered to be not applicable.

With respect to an assessment of the Principle that is other than observed or not applicable, similar guidance is to be used as applies to the criteria themselves. So, for a Principle to be considered **largely observed**, it is necessary that only minor shortcomings exist which do not raise any concerns about the authority’s ability to achieve full observance with the Principle. A Principle will be considered **partly observed** whenever, despite progress, the shortcomings are sufficient to raise doubts about the authority’s ability to achieve observance. A Principle will be considered **not observed** whenever no substantive progress toward observance has been achieved.

While it is generally expected that full observance of a Principle would be achieved through the observance of the essential criteria, there may be instances, where a member can demonstrate that observance with a Principle has been achieved through different means. Conversely, due to specific conditions in a jurisdiction, meeting the essential criteria may not be sufficient to achieve observance of the objective of a Principle. In these cases, additional measures are needed in order for observance of the particular Principle to be considered effective.

4. Details on submission of returns

Members are requested to submit both the Summary Assessments and the Self-assessment Questionnaire to the IAIS Secretariat **by 2 January 2005**. [Up to 1 month extension may be granted for submitting sections relating to action plans and timetables for attaining observance and to requests for assistance to achieve observance.] Where there are two or more members from the same jurisdiction, only one questionnaire should be submitted for that jurisdiction.

Submissions should be made preferably by e-mail. (E-mail address: alex.lee@bis.org) Alternatively, members may mail their responses to: IAIS Secretariat, c/o Bank for International Settlements, CH-4002 Basel, Switzerland. Fax responses should be made to +41 61 280 9151.

5. Compilation of the Results and Confidentiality

The IAIS encourages as many members as possible to complete the self-assessment programme and to use it as an opportunity to critically evaluate their regulatory and

supervisory frameworks and capacity, and identify areas that could be strengthened. The IAIS will compile a summary of the results for presentation at the Annual Conference or on other relevant occasions.

To enhance mutual understanding between members, members are encouraged to grant permission to the IAIS to post their self-assessments, or some parts of them, on the IAIS website. Members have the ultimate right to decide the level of disclosure that they are comfortable with, and the IAIS will respect their decisions.

Insurance Core Principles Self-assessment Programme

This self-assessment programme has been developed to assist jurisdictions in evaluating observance. Recognising the diversity in the regulatory frameworks and supervisory approaches of member jurisdictions, this self-assessment programme aims to allow members to assess the regulation and supervision of the insurance industry in their jurisdictions against the Insurance Core Principles, identify strengths and weaknesses, develop and implement action plans that prioritise the improvements needed to establish and maintain a sound insurance regulatory and supervisory system. Each jurisdiction is requested to complete this programme, which consists of two parts: the Summary Self-assessment and the Self-assessment Questionnaire. Members are requested to submit both parts of the programme to the IAIS Secretariat **by 2 January 2005**. [Up to 1 month extension may be granted for submitting sections relating to action plans and timetables for attaining observance and to requests for assistance to achieve observance.]

Name of Jurisdiction : _____

Name of Organisation: _____

Address: _____

Key Contact Person: _____

Phone Number: _____

E-mail Address: _____

Fax Number: _____

Date of Submission: _____

Date of Assessment: _____

Level of disclosure:

Please indicate how the IAIS should treat the results of your completed questionnaire.

- Disclose to IAIS members through the “members only” area of the website
- Do not disclose the self-assessments, other than in summary reports in the “members only” area of the website, where the results have been aggregated with those of other jurisdictions

Summary Self-assessment

On this form, IAIS members are asked to summarise their assessment of observance of the Insurance Core Principles. This should be completed after the detailed assessment has been carried out. It should be noted that the level of observance for each Principle reflects the assessments of the essential criteria **only**. Assessment of advanced criteria should not be included in assessing observance with Principles.

Name of Organisation: _____

Core Principle	Title	Level of Observance (Please tick one for each Principle)				
		O	LO	PO	NO	NA
1	Conditions for effective insurance supervision					
2	Supervisory objectives					
3	Supervisory authority					
4	Supervisory process					
5	Supervisory cooperation and information sharing					
6	Licensing					
7	Suitability of persons					
8	Changes in control and portfolio transfers					
9	Corporate governance					
10	Internal control					
11	Market analysis					
12	Reporting to supervisors and off-site monitoring					
13	On-site inspection					
14	Preventive and corrective measures					
15	Enforcement or sanctions					
16	Winding-up and exit from the market					
17	Group-wide supervision					
18	Risk assessment and management					
19	Insurance activity					
20	Liabilities					
21	Investments					
22	Derivatives and similar commitments					
23	Capital adequacy and solvency					
24	Intermediaries					
25	Consumer protection					
26	Information, disclosure and transparency towards the market					
27	Fraud					
28	Anti-money laundering, combating the financing of terrorism (AML/CFT)					

* (O-Observed, LO-Largely Observed, PO-Partly Observed, NO-Not Observed, NA-Not Applicable)

If you are not in observance of a principle (Not Observed or Partly Observed) but plan to observe, please include the following information for each Principle separately:

1. The name and number of the Principle
2. The reasons for non-observance or part observance
3. Action plan and timetable (if any, and includes preliminary plan and timetable) for attaining observance
4. Any requests for assistance to achieve observance

Please provide these information in the following manner:

Example

1. Core Principle	No. 7	“Liabilities”
2. Reason for non-observance		
<i>Weakness in regulations for technical provisions (policy liabilities)</i>		
<i>Shortcomings of accounting standards on technical provisions (imprecise definitions of items, unclear evaluation methods)</i>		
<i>Shortage of experts such as actuaries in the supervisory authority</i>		
3. Action plan with a timetable		
<i>Strengthen regulations covering technical provisions (policy liabilities) by 2004; in particular, issue administrative guidelines for calculation of technical provisions</i>		
<i>Strengthen regulations for insurance accounting rules by complying with internationally accepted accounting standards by 2005.</i>		
<i>Over the next two years, train three members of the insurance supervision department through attendance at training programmes provided by actuary associations</i>		
<i>Strengthen on-site inspection of insurance companies to monitor adequacy of technical provisions</i>		
4. Request to IAIS		
<i>Organize a training seminar to learn about calculation and evaluation of technical provisions</i>		
<i>Provide textbooks in this area</i>		
<i>Send insurance experts on risk assessment to provide face to face training</i>		
Additional Comments (Use additional pages as necessary)		

Self-assessment Questionnaire

Introduction

This information applies to all Principles listed below.

Please complete this questionnaire as follows:

- Under each Principle, indicate the level of observance with each criterion (essential and advanced) in the column provided [O for *Observed*, LO for *Largely Observed*, PO for *Partly Observed*, NO for *Not Observed*, and NA for *Not Applicable*].
- The qualitative assessment should contain a discussion of the reasons underlying the assessment. The discussion should include
 - (i) Identifying relevant insurance laws, regulations, practices including supervisory tools and instruments, which apply to each criterion.
 - (ii) Institutional capacity of the supervisory authority to implement relevant rules and practices.
 - (iii) Any other information you consider relevant to the assessment.

Ideally, qualitative assessment should be made for each individual criterion. To facilitate future self-assessment exercises, one should also keep proper records of the workings that lead to the stated the assessment.

Before completing the self-assessment questionnaire you are strongly encouraged to read carefully the *Insurance Core Principles and Methodology (IAIS, October 2003)*.

Detailed Assessment

Conditions for effective insurance supervision (ICP 1)

<p>Principle 1: Conditions for effective insurance supervision</p> <p>Insurance supervision relies upon</p> <ul style="list-style-type: none"> • a policy, institutional and legal framework for financial sector supervision • a well developed and effective financial market infrastructure • efficient financial markets. 	
	O/LO/PO/NO/NA *
<p>Financial sector policy framework</p> <p><i>Essential criteria</i></p> <p>a. The government establishes and publicly discloses a policy statement aimed at ensuring financial stability, including the provision of effective financial sector supervision covering the insurance and other financial sectors.</p>	
<p>b. An institutional and legal framework – comprising public institutions, laws and regulations – exists for financial sector issues, including those pertaining to insurance, to address system-wide issues. This framework is well-defined and publicly disclosed.</p>	
<p>Financial market infrastructure</p> <p><i>Essential criteria</i></p> <p>c. There is a reliable, effective, efficient and fair legal and court system (a body of ethical, professional and trained lawyers and judges) whose decisions are enforceable. Alternative dispute mechanisms operate within an appropriate legal framework.</p>	
<p>d. Accounting, actuarial and auditing standards are comprehensive, documented, transparent and consistent with international standards. Accounting and actuarial standards are applied and disclosed in a manner that allows current and prospective policyholders, investors, intermediaries, creditors and supervisors to properly evaluate the financial condition of insurers.</p>	
<p>e. Accountants, actuaries and auditors are competent and experienced and comply with technical and ethical standards to ensure the accuracy and reliability of financial data and its interpretation. Auditors are independent from the insurer.</p>	

f. Professional bodies set and enforce technical and ethical standards. These standards are accessible to the public.	
g. Basic economic, financial and social statistics are available to the supervisory authority, the industry and the public.	
Advanced criteria	
h. Laws and regulations are updated, as necessary, to reflect current best practices and industry conditions.	
Efficient financial markets	
Essential criteria	
i. Well-functioning money and securities markets exist to support the availability of both long-term and short-term investment opportunities.	
* (O-Observed, LO-Largely Observed, PO-Partly Observed, NO-Not Observed, NA-Not Applicable)	

Assessment:

Financial sector policy framework:

Financial market infrastructure:

Efficient financial markets:

(Please continue on a separate page if necessary)

The supervisory system (ICP 2 to ICP 5)

Principle 2: Supervisory objectives	
The principal objectives of insurance supervision are clearly defined.	
	O/LO/PO/NO/NA *
Essential criteria	
a. Legislation or regulation clearly defines the objectives of insurance supervision.	
b. The key objectives of supervision promote the maintenance of efficient, fair, safe and stable insurance markets for the benefit and protection of policyholders.	
c. In the event that the law mandates or specifies multiple objectives for insurance supervision, the supervisory authority discloses and explains how each objective will be applied.	
d. The supervisory authority gives reasons for and explains any deviations from its objectives.	
e. Where objectives are contradictory, the supervisory authority initiates or proposes correction in law or regulation.	
* (O-Observed, LO-Largely Observed, PO-Partly Observed, NO-Not Observed, NA-Not Applicable)	

Assessment:

(Please continue on a separate page if necessary)

<p>Principle 3: Supervisory authority</p> <p>The supervisory authority:</p> <ul style="list-style-type: none"> • has adequate powers, legal protection and financial resources to exercise its functions and powers • is operationally independent and accountable in the exercise of its functions and powers • hires, trains and maintains sufficient staff with high professional standards • treats confidential information appropriately. 	
	O/LO/PO/NO/NA *
<p>Legal framework</p> <p><i>Essential criteria</i></p> <p>a. The legislation identifies the authority (or authorities) responsible for the supervision of insurance entities.</p>	
<p>b. The legislation gives the supervisory authorities the power to issue and enforce rules by administrative means (refer to ICP 4 EC a).</p>	
<p>c. The legislation grants sufficient powers for the effective discharge of supervisory responsibilities.</p>	
<p>Independence and accountability</p> <p><i>Essential criteria</i></p> <p>d. The governance structure of the supervisory authority is clearly defined. Internal governance procedures necessary to ensure the integrity of supervisory operations, including internal audit arrangements, are in place.</p>	
<p>e. There are explicit procedures regarding the appointment and dismissal of the head and members of the governing body. When the head of an authority or the governing body is removed from office, the reasons are publicly disclosed.</p>	
<p>f. The institutional relationships between the supervisory authority and executive and the judiciary branches are clearly defined and transparent. Circumstances where executive overrides are allowed are specified.</p>	
<p>g. The supervisory authority and its staff are free from undue political, governmental and industry interference in the performance of supervisory responsibilities.</p>	
<p>h. The supervisory authority is financed in a manner that does not undermine its independence from political, governmental or</p>	

industry bodies.	
i. The supervisory authority has discretion to allocate its resources in accordance with its mandate and objectives and the risks it perceives.	
j. The supervisory authority has transparent processes and procedures for making supervisory decisions. Supervisory decisions are demonstrably consistent.	
k. All material changes to the insurance legislation and supervisory practices are normally subject to prior consultations with market participants.	
Advanced criteria	
l. Representatives of the supervisory authority publicly explain their policy objectives, and report on their activities and performance in pursuing their objectives.	
m. Subject to confidentiality considerations, information is provided publicly about problem or failed insurers, including information on official actions taken.	
Powers	
Essential criteria	
n. When necessary, the supervisory authority has the power to take immediate action to achieve its objectives, especially to protect policyholders' interests (refer to ICP 4 EC e).	
Financial resources	
Essential criteria	
o. The supervisory authority has its own budget sufficient to enable it to conduct effective supervision. The supervisory authority is able to attract and retain highly skilled staff, hire outside experts as necessary, provide training, and rely upon an adequate supervisory infrastructure and tools.	
p. The supervisory authority publishes audited financial statements on a regular basis.	
Human resources and legal protection	
Essential criteria	
q. The supervisory authority and its staff – observe the highest professional standards	

<p>–have the appropriate levels of skills and experience have the necessary legal protection to protect them against lawsuits for actions taken in good faith while discharging their duties, provided they have not acted illegally</p> <p>–are adequately protected against the costs of defending their actions while discharging their duties</p> <p>–act with integrity. Supervisory staff are subject to conflict of interest rules, such as prohibition on dealing in shares and investing in the companies they supervise. The supervisory authority establishes and enforces a code of conduct that applies to all staff members.</p>	
<p>r. The supervisory authority has the authority to hire, contract or retain the services of external specialists through contracts or outsourcing arrangements if necessary.</p>	
<p>s. Where supervisory functions are outsourced to third parties, the supervisory authority is able to assess their competence, monitor their performance, and ensure their independence from the insurer or any other related party.</p>	
<p>Confidentiality</p> <p><i>Essential criteria</i></p> <p>t. The supervisory authority maintains appropriate safeguards for the protection of confidential information in its possession. Other than when required by law, or when requested by another supervisor who has a legitimate supervisory interest and the ability to uphold the confidentiality of the requested information, the supervisory authority denies requests for confidential information in its possession (refer to ICP 5).</p>	
<p>u. External specialists hired by the supervisory authority are subject to the same confidentiality and code of conduct requirements as the staff of the supervisory authority.</p>	
<p>* (O-Observed, LO-Largely Observed, PO-Partly Observed, NO-Not Observed, NA-Not Applicable)</p>	

Assessment:

Legal framework:

Independence and accountability:

Powers:

Financial resources:

Human resource and legal protection:

Confidentiality:

(Please continue on a separate page if necessary)

Principle 4: Supervisory process	
The supervisory authority conducts its functions in a transparent and accountable manner.	
	O/LO/PO/NO/NA *
Essential criteria	
a. The supervisory authority adopts clear, transparent and consistent regulatory and supervisory processes. The rules and procedures of the supervisory authority are published and updated regularly.	
b. The supervisory authority applies all regulations and administrative procedures consistently and equitably, taking into account the different risk profiles of insurers.	
c. The administrative decisions of the supervisory authority can be subject to substantive judicial review. However, such action must not unduly impede the ability of the supervisory authority to make timely interventions in order to protect policyholders' interests.	
d. The supervisory authority makes information on its role publicly available.	
e. The decision-making lines of the supervisory authority are so structured that action can be taken immediately in the case of an emergency situation (refer to ICP 3 EC n and ICP 15).	
f. The process to appeal supervisory decisions is specified and balanced to preserve supervisory independence and effectiveness.	
g. The supervisory authority publishes a regular report – at least annually and in a timely manner – on the conduct of its policy, explaining its objectives and describing its performance in pursuing its objectives.	
Advanced criteria	
h. The supervisory authority provides and publishes information about the financial situation of the insurance industry and observations on major developments in the insurance or financial market.	
* (O-Observed, LO-Largely Observed, PO-Partly Observed, NO-Not Observed, NA-Not Applicable)	

Assessment:

(Please continue on a separate page if necessary)

Principle 5: Supervisory cooperation and information sharing	
The supervisory authority cooperates and shares information with other relevant supervisors subject to confidentiality requirements.	
	O/LO/PO/NO/NA *
Essential criteria	
a. The existence of a formal agreement with another supervisor is not a prerequisite for information sharing.	
b. The supervisory authority, at its discretion, can enter into agreements or understandings with any other financial sector supervisor (“another supervisor”) to share relevant supervisory information or to otherwise work together.	
c. When reasonably requested and with appropriate safeguards, the supervisory authority is able to exchange with another supervisor (refer to ICP 7 EC e) the following: – relevant supervisory information, including specific information requested and gathered from a supervised entity – relevant financial data – objective information on individuals holding positions of responsibility in such entities.	
d. Information sharing, whether carried out under formal or informal arrangements, allows for a two-way flow of information without requiring strict reciprocity in terms of the level, format and detailed characteristics of the information exchanged.	
e. The home supervisory authority provides relevant information to the host supervisor.	
f. The supervisory authority is required to take reasonable steps to ensure that any information released to another supervisor will be treated as confidential by the receiving supervisor and will be used only for supervisory purposes.	
g. The supervisory authority consults with another supervisor if it proposes to take action on the evidence of the information received from that supervisor.	
h. The home supervisory authority informs relevant host supervisors of any material changes in supervision that may have a significant bearing on the operations of foreign establishments operating in their jurisdictions.	
i. Where possible, the home supervisory authority informs the host supervisor in advance of taking any action that will affect the	

The supervised entity (ICP 6 to ICP 10)

<p>Principle 6: Licensing</p> <p>An insurer must be licensed before it can operate within a jurisdiction. The requirements for licensing are clear, objective and public.</p>	
	<p>O/LO/PO/NO/NA *</p>
<p>Essential criteria</p> <p>a. The insurance legislation:</p> <ul style="list-style-type: none"> – includes a definition of insurers – requires licensing of insurers, and prohibits unauthorised insurance activities – defines the permissible legal forms of insurers – allocates the responsibility for issuing licences. <p>b. Clear, objective and public licensing criteria require:</p> <ul style="list-style-type: none"> – the applicant’s board members, senior management, auditor and actuary both individually and collectively to be suitable, as specified in ICP 7 – the applicant’s significant owners (refer to ICP 8 EC a) to be suitable, as specified in ICP 7 – the applicant to hold the required capital – the applicant’s risk management systems including reinsurance arrangements, internal control systems, information technology systems, policies and procedures to be adequate for the nature and scale of the business in question – information on the applicant’s business plan projected out for a minimum of three years. The business plan must reflect the business lines and risk profile, and give details of projected setting-up costs, capital requirements, projected development of business, solvency margins and reinsurance arrangements. The business plan must present information regarding primary insurance and inward reinsurance separately – information on the products to be offered by the insurer – information on contracts with affiliates and outsourcing arrangements – information on the applicant’s reporting arrangements, both internally to its own management and externally to the supervisory authority 	

<p>–input from the applicant’s home supervisory authority when the insurer or its owners are not domestic and a home supervisory authority exists (refer to ICP 5).</p>	
<p>c. The supervisory authority requires that no domestic or foreign insurance establishment escape supervision.</p>	
<p>d. All insurance establishments of international insurance groups and international insurers are subject to effective supervision. The creation of a cross border establishment should be subject to consultation between the host and home supervisor.</p>	
<p>e. The insurance legislation determines the method by which a foreign insurer can carry on business in the jurisdiction. This may be by way of a local branch or subsidiary that must be licensed, or on a services basis only.</p>	
<p>f. If a foreign insurer is allowed to carry on business in the jurisdiction the supervisory authority must be provided with the following data:</p> <ul style="list-style-type: none"> –confirmation from the home supervisory authority that the insurer is authorised to carry on the types of insurance business proposed –information from the home supervisory authority that the insurer is solvent and meets all the regulatory requirements in the home jurisdiction –in the case of a branch office: the name and address of the branch –the name of the authorised agent in the local jurisdiction in the case of insurance offered on a services basis (i.e., where a local branch or subsidiary is not established) –the information and documentation normally required to be licensed in the local jurisdiction, when appropriate <p>These information requirements might be waived if insurance is offered on a services basis only.</p>	
<p>g. An insurer licensed to underwrite life insurance business must not also be licensed to underwrite non-life insurance business, and vice versa, unless the supervisory authority is satisfied that the insurer has satisfactory processes requiring that risks be handled separately on both a going-concern and a winding-up basis.</p>	
<p>h. The supervisory authority imposes additional requirements, conditions or restrictions on an applicant where the supervisory authority considers this appropriate. This might include restrictions on non-insurance activities.</p>	
<p>i. The supervisory authority assesses the application and makes a decision within a reasonable time. No licence is issued without its</p>	

Principle 7: Suitability of persons	
The significant owners, board members, senior management, auditors and actuaries of an insurer are fit and proper to fulfil their roles. This requires that they possess the appropriate integrity, competency, experience and qualifications.	
	O/LO/PO/NO/NA *
Essential Criteria	
a. Legislation identifies which key functionaries must meet fit and proper requirements. The key functionaries identified may differ depending on the legal form and governance structure of the insurer.	
b. In cases where significant owners no longer meet fit and proper requirements, the supervisory authority must be able to take appropriate action, including requiring that the owners dispose of their interests.	
c. The supervisory authority disqualifies the appointment of key functionaries including auditors and actuaries of insurers that do not comply with fit and proper requirements.	
d. The insurer should be required to demonstrate to the supervisory authority the fitness and propriety of key functionaries by submitting documentation illustrating their knowledge, experience, skills and integrity upon request, or where there are changes in key functionaries. The knowledge and experience required depends on the position and responsibility of the functionary within the insurer.	
e. The supervisory authority exchanges information with other authorities inside and outside its jurisdiction where necessary to check the suitability of persons. The supervisory authority uses this information as an additional tool to effectively assess the fitness and propriety of, or to obtain information on, a key functionary of an insurer (refer to ICP 5).	
f. The supervisory authority disallows actuaries, auditors, directors and senior managers, from simultaneously holding two positions in an insurer where this could result in a material conflict.	
g. Where the insurer becomes aware of circumstances that may be relevant to the fitness and propriety of its key functionaries, it is required to notify the supervisory authority as soon as possible.	
Advanced criteria	
h. Criteria to assess the fitness and propriety of auditors' and actuaries' include qualifications, professional proficiency, appropriate practical experience and updated knowledge on	

<p>Principle 8: Changes in control and portfolio transfers</p> <p>The supervisory authority approves or rejects proposals to acquire significant ownership or any other interest in an insurer that results in that person, directly or indirectly, alone or with an associate, exercising control over the insurer.</p> <p>The supervisory authority approves the portfolio transfer or merger of insurance business.</p>	
	O/LO/PO/NO/NA *
<p>Changes in control</p> <p>Essential criteria</p> <p>a. The term “control” over an insurer is defined in legislation and it addresses:</p> <ul style="list-style-type: none"> –holding of a defined number or percentage of issued shares or specified financial instruments (such as compulsory convertible debentures) above a designated threshold in an insurer or its intermediate or ultimate beneficial owner –voting rights attached to the aforementioned shares or financial instruments –power to appoint or remove directors to the board and other executive committees. <p>b. The supervisory authority requires that the potential controlling owners apply for approval for the acquisition, or change in control, of the insurers. The insurer must inform the supervisory authority of any acquisitions or changes in control.</p> <p>c. The supervisory authority approves any significant increase in shareholdings above the predetermined control levels in an insurer by legal or natural persons, whether obtained individually or in association with others. This also applies to any other interest in that insurer or its intermediate or ultimate beneficial owners.</p> <p>d. The requirements in criteria b and c above also refer to the acquisition or change of control where the intermediate or ultimate beneficial owner(s) of an insurer is (are) outside the jurisdiction where the insurer is incorporated. Supervision of changes in control may require coordination with supervisors in other jurisdictions (refer to ICP 5).</p> <p>e. The supervisory authority must be satisfied that those seeking control meet the criteria applied during the licensing process. The requirements in ICP 7 – Suitability of persons – will apply to the prospective owners in control of insurers.</p>	

f. The supervisory authority requires that the structures of the financial groups containing potential controlling owners of insurers be sufficiently transparent so that supervision of the insurance group will not be hindered (refer to ICP 17).	
g. The supervisory authority rejects applications of proposed owners to control insurers if facts exist from which it can be deduced that their ownership will be unduly prejudicial to policyholders. The supervisory authority should know who is the intended beneficial owner.	
h. To assess applications for proposed acquisitions or changes in control of insurers the supervisory authority establishes requirements for financial and non-financial resources.	
Advanced criteria	
i. Upon request insurers provide the supervisory authority with information on their shareholders and any other person directly or indirectly exercising control. The supervisory authority determines the content and format of this information.	
Portfolio transfer	
Essential criteria	
j. The supervisory authority requires that insurers get approval from the authority before they transfer all or any part of their insurance business.	
k. The supervisory authority establishes requirements to assess insurers' applications to transfer all or any part of their insurance business.	
l. The supervisory authority requires that the interests of the policyholders of both the transferee and transferor be protected when insurance business is transferred (refer to ICP 15 EC c).	
* (O-Observed, LO-Largely Observed, PO-Partly Observed, NO-Not Observed, NA-Not Applicable)	

Assessment:

Change in control:

Principle 9: Corporate governance	
The corporate governance framework recognises and protects rights of all interested parties. The supervisory authority requires compliance with all applicable corporate governance standards.	
	O/LO/PO/NO/NA *
Essential criteria	
a. The supervisory authority requires and verifies that the insurer complies with applicable corporate governance principles.	
b. The board of directors: <ul style="list-style-type: none"> –sets out its responsibilities in accepting and committing to the specific corporate governance principles for its undertaking. Regulations on corporate governance should be covered in general company law and/or insurance law. These regulations should take account of the size, nature and complexity of the insurer. –establishes policies and strategies, the means of attaining them, and procedures for monitoring and evaluating the progress toward them. Adherence to the policies and strategies are reviewed regularly, and at least annually. –satisfies itself that the insurer is organised in a way that promotes the effective and prudent management of the institution and the board’s oversight of that management. The board of directors has in place and monitors independent risk management functions that monitor the risks related to the type of business undertaken. The board of directors establishes audit functions, actuarial functions, strong internal controls and applicable checks and balances. –distinguishes between the responsibilities, decision-making, interaction and cooperation of the board of directors, chairman, chief executive and senior management. The board of directors delegates its responsibilities and establishes decision-making processes. The insurer establishes a division of responsibilities that will ensure a balance of power and authority, so that no one individual has unfettered powers of decision. –establishes standards of business conduct and ethical behaviour for directors, senior management and other personnel. These include policies on private transactions, self-dealing, preferential treatment of favoured internal and external entities, covering trading losses and other inordinate trade practices of a non-arm’s length nature. The insurer has an on-going, appropriate and effective process of ensuring adherence to those standards. – appoints and dismisses senior management. It establishes a 	

<p>remuneration policy that is reviewed periodically. This policy is made available to the supervisory authority.</p> <ul style="list-style-type: none"> –collectively ensures that the insurer complies with all relevant laws, regulations and any established codes of conduct (refer to EC f). –has thorough knowledge, skills, experience and commitment to oversee the insurer effectively (refer to ICP 7). –is not subject to undue influence from management or other parties. The board of directors has access to information about the insurer, and asks and receives additional information and analyses that the board sees fit. –communicates with the supervisory authority as required and meets with the supervisory authority when requested. –sets out policies that address conflicts of interest, fair treatment of customers and information sharing with stakeholders, and reviews these policies regularly (refer to ICP 25). 	
<p>c. Senior management is responsible for:</p> <ul style="list-style-type: none"> –overseeing the operations of the insurer and providing direction to it on a day-to-day basis, subject to the objectives and policies set out by the board of directors, as well as to legislation. –providing the board of directors with recommendations, for its review and approval, on objectives, strategy, business plans and major policies that govern the operation of the insurer. –providing the board with comprehensive, relevant and timely information that will enable it to review business objectives, business strategy and policies, and to hold senior management accountable for its performance. 	
<p>Advanced criteria</p> <p>d. The board of directors may establish committees with specific responsibilities like a compensation committee, audit committee or risk management committee.</p>	
<p>e. The remuneration policy for directors and senior management has regard to the performance of the person as well as that of the insurer. The remuneration policy should not include incentives that would encourage imprudent behaviour.</p>	
<p>f. The board of directors identifies an officer or officers with responsibility for ensuring compliance with relevant legislation and required standards of business conduct and who reports to the</p>	

Principle 10: Internal control	
The supervisory authority requires insurers to have in place internal controls that are adequate for the nature and scale of the business. The oversight and reporting systems allow the board and management to monitor and control the operations.	
	O/LO/PO/NO/NA *
Essential criteria	
a. The supervisory authority reviews the internal controls and checks their adequacy to the nature and the scale of the business and requires strengthening of these controls where necessary. The board of directors is ultimately responsible for establishing and maintaining an effective internal control system.	
b. The framework for internal controls within the insurer includes arrangements for delegating authority and responsibility, and the segregation of duties. The internal controls address checks and balances; e.g. cross-checking, dual control of assets, double signatures (refer to ICP 9 EC b).	
c. The internal and external audit, actuarial and compliance functions are part of the framework for internal control, and must test adherence to the internal controls as well as to applicable laws and regulations.	
d. The board of directors must provide suitable prudential oversight and establish a risk management system that includes setting and monitoring policies so that all major risks are identified, measured, monitored and controlled on an on-going basis. The risk management systems, strategies and policies are approved and periodically reviewed by the board of directors (refer to ICP 18).	
e. The board of directors provides suitable oversight of market conduct activities.	
f. The board of directors should receive regular reporting on the effectiveness of the internal controls. Internal control deficiencies, either identified by management, staff, internal audit or other control personnel, are reported in a timely manner and addressed promptly.	
g. The supervisory authority requires that internal controls address accounting procedures, reconciliation of accounts, control lists and information for management.	
h. The supervisory authority requires oversight and clear accountability for all outsourced functions as if these functions were performed internally and subject to the normal standards of	

internal controls.	
i. The supervisory authority requires the insurer to have an on-going internal audit function of a nature and scope appropriate to the business. This includes ensuring compliance with all applicable policies and procedures and reviewing whether the insurer's policies, practices and controls remain sufficient and appropriate for its business.	
j. The supervisory authority requires that an internal audit function: <ul style="list-style-type: none"> –has unfettered access to all the insurer's business lines and support departments –assesses outsourced functions –has appropriate independence, including reporting lines to the board of directors –has status within the insurer to ensure that senior management reacts to and acts upon its recommendations –has sufficient resources and staff that are suitably trained and have relevant experience to understand and evaluate the business they are auditing –employs a methodology that identifies the key risks run by the institution and allocates its resources accordingly (refer to ICP 18). 	
k. The supervisory authority has access to reports of the internal audit function.	
l. Where the appointment of an actuary is called for by applicable legislation or by the nature of the insurer's operations, the supervisory authority requires that actuarial reports be made to the board and to management.	
* (O-Observed, LO-Largely Observed, PO-Partly Observed, NO-Not Observed, NA-Not Applicable)	

Assessment:

(Please continue on a separate page if necessary)

On-going supervision (ICP 11 to ICP 17)

<p>Principle 11: Market analysis</p> <p>Making use of all available sources, the supervisory authority monitors and analyses all factors that may have an impact on insurers and insurance markets. It draws conclusions and takes action as appropriate.</p>	
	O/LO/PO/NO/NA *
<p>Essential criteria:</p> <p>a. The supervisory authority conducts regular analysis of market conditions.</p> <p>b. The market analysis not only includes past developments and the present situation, but also aims to identify trends and possible future scenarios and issues, so that the supervisory authority is well prepared to take action at an early stage, if required.</p> <p>c. The market analysis is both quantitative and qualitative and makes use of both public and confidential sources of information.</p> <p>d. The supervisory authority or others, such as the insurance industry, publish aggregated market data that is readily and publicly available to the insurance industry and other interested parties.</p> <p>e. The supervisory authority requires market-wide systematic reporting to analyse and monitor particular market-wide events of importance for the financial stability of insurance markets.</p>	
<p>Advanced criteria:</p> <p>f. Insofar as international relationships affect internal insurance and financial markets, the analysis is not limited to the home market, but also includes developments elsewhere.</p> <p>g. The supervisory authority monitors trends that may have an impact on the financial stability of insurance markets. It assesses whether macro-economic risks and vulnerabilities are adversely impinging on prudential safeguards, financial stability or consumer interests.</p>	
<p>*Note: O = observed; LO = largely observed; PO = partly observed; NO = not observed; NA = not applicable.</p>	

Assessment:

(Please continue on a separate page if necessary)

Principle 12: Reporting to supervisors and off-site monitoring

The supervisory authority receives necessary information to conduct effective off-site monitoring and to evaluate the condition of each insurer as well as the insurance market.

	O/LO/PO/NO/NA *
<p>Essential criteria:</p> <p>a. The supervisory authority:</p> <ul style="list-style-type: none"> –sets the requirements for the submission of regular and systematic financial and statistical information, actuarial reports and other information from all insurers licensed in the jurisdiction –defines the scope and frequency of those reports and information, including any requirement that reports and information be audited –requires, as a minimum, an audit opinion should be provided annually (refer to ICP 1 EC e) –requests more frequent and more detailed additional information whenever there is a need. 	
<p>b. If making a distinction between the financial reports and requirements of companies incorporated in the jurisdiction and branches, or between private entities and government-sponsored insurers that compete with private enterprises, the supervisory authority should not distort the market in favour of or against any particular form of enterprise.</p>	
<p>c. The supervisory authority:</p> <ul style="list-style-type: none"> –requires insurers to submit information about their financial condition and performance on both a solo and a group-wide basis. It may request and obtain financial information on any subsidiary of the supervised entity. –sets out the principles and norms regarding accounting and consolidation techniques to be used. The valuation of assets and liabilities should be consistent, realistic, and prudent (refer to ICP 21 EC b). –requires insurers to report any off-balance sheet exposures. –requires insurers to report on their outsourced functions. –requires that the appropriate level of an insurer’s senior management is responsible for the timing and accuracy of these returns. –requires that inaccurate information be corrected and has the 	

Principle 13: On-site Inspection

The supervisory authority carries out on-site inspections to examine the business of an insurer and its compliance with legislation and supervisory requirements.

	O/LO/PO/NO/NA *
Essential criteria:	
a. By law, the supervisory authority has wide-ranging powers to conduct on-site inspections and gather information deemed necessary to perform its duties.	
b. The supervisory authority, external auditors or other suitably qualified parties verify information in regulatory returns periodically through on-site inspections. Where parties other than the supervisory authority verify information, then arrangements for communication with the supervisory authority should be established.	
c. The supervisory authority may conduct on-site inspections on either a full scale, or a focussed basis investigating areas of specific concern.	
d. The supervisory authority promptly discusses findings and any need for corrective action with the insurer and obtains appropriate feedback from the insurer.	
e. The supervisory authority follows up with the insurer to ensure that any required action has been taken.	
f. The supervisory authority can extend on-site inspections to obtain information from intermediaries and companies that have accepted functions outsourced by the supervised insurer.	
*Note: O = observed; LO = largely observed; PO = partly observed; NO = not observed; NA = not applicable.	

Assessment:

(Please continue on a separate page if necessary)

Principle 14: Preventive and Corrective Measures

The supervisory authority takes preventive and corrective measures that are timely, suitable and necessary to achieve the objectives of insurance supervision.

	O/LO/PO/NO/NA *
Essential criteria:	
a. The supervisory authority has available and makes use of adequate instruments to enable timely preventive and corrective measures if an insurer fails to operate in a manner that is consistent with sound business practices or regulatory requirements.	
b. There should be a progressive escalation of action or remedial measures if the problems become worse or if management of the insurer ignores more informal requests from the supervisory authority to take corrective action.	
c. The supervisory authority has the capacity and standing to communicate with insurers, and insurers comply with such communications, to ensure that relatively minor preventive or corrective measures are taken.	
d. If necessary the supervisory authority requires the insurer to develop an acceptable plan for correction of problems. Corrective plans include agreed and acceptable steps to be taken to resolve the issues raised and an acceptable timetable.	
e. The supervisory authority initiates measures designed to prevent a breach of the legislation from occurring, and promptly and effectively deals with non-compliance with regulations that could put policyholders at risk or impinge on any other of the authority's objectives.	
<p>*Note: O = observed; LO = largely observed; PO = partly observed; NO = not observed; NA = not applicable.</p>	

Assessment:

(Please continue on a separate page if necessary)

Principle 15: Enforcement or sanctions

The supervisory authority enforces corrective action and, where needed, imposes sanctions based on clear and objective criteria that are publicly disclosed.

	O/LO/PO/NO/NA *
Essential criteria:	
a. The supervisory authority can issue formal directions to companies to take particular actions or to desist from taking particular actions. Failure to comply with a formal direction issued by the supervisory authority has serious consequences for those that take such a step.	
b. The supervisory authority has the power to prevent the insurer issuing new policies.	
c. The supervisory authority can arrange for compulsory transfer of the obligations under the policies from a failing insurer to another insurer that accepts this transfer (refer to ICP 8 EC I).	
d. The supervisory authority can require capital levels to be increased, restrict or suspend dividend or other payments to shareholders, restrict asset transfers and restrict an insurer's purchase of its own shares. It can also initiate action to restrict the ownership or activities of a subsidiary where, in its opinion, such activities jeopardise the financial situation of the insurer.	
e. The supervisory authority has effective means to address management problems, including the power to have controlling owners, directors, and managers replaced or their powers restricted. More generally the supervisory authority in extreme cases, imposes conservatorship over an insurer that is failing to meet prudential or other requirements. The supervisory authority has the power to take control of the insurer, or to appoint other specified officials or receivers for the task, and to make such arrangements for the benefit of the policyholders as are necessary.	
f. Once action has been taken or remedial measures have been imposed, the supervisory authority periodically checks to determine that the insurer is complying with the measures.	
g. The insurance legislation provides for sanctions by way of fines against individuals and insurers where the provisions of the legislation are breached.	
h. The insurance legislation provides for sanctions against individuals who withhold information from the supervisory authority, provide information that is intended to mislead the	

Principle 17: Group-wide supervision	
The supervisory authority supervises its insurers on a solo and a group-wide basis.	
	O/LO/PO/NO/NA *
Essential criteria:	
a. What constitutes an insurance group and financial conglomerate is clearly defined so that supervisors and insurers can determine: <ul style="list-style-type: none"> – which groups are considered to be insurance groups or financial conglomerates – which group or groups an insurer belongs to – the scope of the supervision. 	
b. The supervisory authority ensures effective and efficient group-wide supervision. The supervisory authorities co-operate to avoid unnecessary duplication.	
c. Where different supervisory authorities are responsible for different parts of a group or conglomerate appropriate co-operation and co-ordination exists. The supervisory responsibilities of each authority are well-defined and leave no supervisory gaps.	
d. At a minimum, group-wide supervision of insurers which are part of insurance groups or financial conglomerates includes, as a supplement to solo supervision, at a group level, and intermediate level as appropriate, adequate policies on and supervisory oversight of: <ul style="list-style-type: none"> – group structure and interrelationships, including ownership and management structure – capital adequacy – reinsurance and risk concentration – intra-group transactions and exposures, including intra-group guarantees and possible legal liabilities – internal control mechanisms and risk management processes, including reporting lines and fit and proper testing of senior management. 	
e. Host supervisory authorities avoid uncooperative behaviour with home supervisory authorities so as not to hinder effective supervision of groups and conglomerates (refer to ICP 5 EC i).	

f. The supervisory authority requires that insurance groups and financial conglomerates have reporting systems in place that adequately meet the supervisory information demands.	
g. The supervisory authority may deny or withdraw the license when the organisational (or group) structure hinders effective supervision (refer to ICP 6 and ICP 15).	
*Note: O = observed; LO = largely observed; PO = partly observed; NO = not observed; NA = not applicable.	

Assessment:

(Please continue on a separate page if necessary)

Prudential requirements (ICP 18 to ICP 23)

Principle 18: Risk assessment and management	
The supervisory authority requires insurers to recognise the range of risks that they face and to assess and manage them effectively.	
	O/LO/PO/NO/NA *
Essential criteria	
a. The supervisory authority requires and checks that insurers have in place comprehensive risk management policies and systems capable of promptly identifying, measuring, assessing, reporting and controlling their risks (refer to ICP 10 EC d).	
b. The risk management policies and risk control systems are appropriate to the complexity, size and nature of the insurer’s business. The insurer establishes an appropriate tolerance level or risk limit for material sources of risk.	
c. The risk management system monitors and controls all material risks.	
d. Insurers regularly review the market environment in which they operate, draw appropriate conclusions as to the risks posed and take appropriate actions to manage adverse impacts of the environment on the insurer’s business.	
Advanced criteria	
e. Larger insurers establish a risk management function and a risk management committee.	
*Note: O-Observed; LO-Largely Observed; PO-Partly Observed; NO-Not Observed; NA-Not Applicable.	

Assessment:

(Please continue on a separate page if necessary)

Principle 19: Insurance activity

Since insurance is a risk taking activity, the supervisory authority requires insurers to evaluate and manage the risks that they underwrite, in particular through reinsurance, and to have the tools to establish an adequate level of premiums.

	O/LO/PO/NO/NA *
Essential criteria	
a. The supervisory authority requires insurers to have in place strategic underwriting and pricing policies approved and reviewed regularly by the board of directors.	
b. The supervisory authority checks that insurers evaluate the risks that they underwrite and establish and maintain an adequate level of premiums. For this purpose, insurers should have systems in place to control their expenses related to premiums and claims, including claims handling and administration expenses. These expenses should be monitored by management on an on-going basis.	
c. The supervisory authority is able to review the methodology used by the insurer to set premiums to determine that they are established on reasonable assumptions to enable the insurer to meet its commitments.	
d. The supervisory authority requires that the insurer has a clear strategy to mitigate and diversify risks by defining limits on the amount of risk retained and taking out appropriate reinsurance cover or using other risk transfer arrangements consistent with its capital position. This strategy is an integral part of the insurer's underwriting policy and must be approved and regularly monitored and reviewed by the board of directors.	
e. The supervisory authority reviews reinsurance arrangements to check that they are adequate and that the claims held by insurers on their reinsurers are recoverable. This includes that: –the reinsurance programme provides coverage appropriate to the level of capital of the insurer (taking into account the real transfer of risk) and the profile of the risks it underwrites – the reinsurer's protection is secure. This might be addressed through different means, such as relying on a system of direct supervision of reinsurers or obtaining collateral (including trusts, letters of credit or funds withheld).	
f. The supervisory authority checks that risk transfer instruments are properly accounted for in order to give a true and fair view of the	

insurer's risk exposure.

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***Note: O-Observed; LO-Largely Observed; PO-Partly Observed; NO-Not Observed; NA-Not Applicable.**

Assessment:

(Please continue on a separate page if necessary)

Principle 20: Liabilities

The supervisory authority requires insurers to comply with standards for establishing adequate technical provisions and other liabilities, and making allowance for reinsurance recoverables. The supervisory authority has both the authority and the ability to assess the adequacy of the technical provisions and to require that these provisions be increased, if necessary.

	O/LO/PO/NO/NA *
Essential criteria	
a. Legal provisions are in place for establishing adequate technical provisions and other liabilities based on sound accounting and actuarial principles.	
b. The supervisory authority prescribes or agrees to standards for establishing technical provisions and other liabilities.	
c. The supervisory authority in developing the standards considers: – what is to be included as a liability – the procedure and the internal control system that are in place to ensure reliable data (refer to ICP 10) – the methods and assumptions for assessing, on a reliable, objective, transparent and prudent basis, technical provisions to cover all expected and some unexpected claims and expenses.	
d. The supervisory authority reviews the sufficiency of the technical provisions through off-site monitoring and on-site inspection (refer to ICPs 12 and 13).	
e. The supervisory authority requires the technical provisions to be increased if they are not sufficient.	
f. The supervisory authority ensures that standards stipulate: – general limits for the valuation of the amounts recoverable under reinsurance arrangements with a given reinsurer for solvency purposes, taking into account the ultimate collectability and the real transfer of risk – sound accounting principles for the booking of the amounts recoverable under reinsurance arrangements – the credit for technical provisions for amounts recoverable under reinsurance arrangements. In that case, the amount recoverable is disclosed in the financial statement of the insurer	

by reporting the respective gross and net figures in the accounts.	
Advanced criteria g. The supervisory authority requires that insurers undertake regular stress testing for a range of adverse scenarios in order to assess the adequacy of capital resources in case technical provisions have to be increased (refer to ICP 21 AC k and ICP 23 AC j).	
*Note: O-Observed; LO-Largely Observed; PO-Partly Observed; NO-Not Observed; NA-Not Applicable.	

Assessment:

(Please continue on a separate page if necessary)

Principle 21: Investments

The supervisory authority requires insurers to comply with standards on investment activities. These standards include requirements on investment policy, asset mix, valuation, diversification, asset-liability matching, and risk management.

O/LO/PO/NO/NA *

Essential criteria

- a. Requirements regarding the management of investments are in place, either in the law or in supervisory rules. These requirements address, but may not be limited to, the following:
 - the mixture and diversification by type
 - limits or restrictions on the amount that may be held in particular types of financial instruments, property, and receivables
 - the safekeeping of assets
 - the appropriate matching of assets and liabilities
 - the level of liquidity.

- b. Investments are valued according to a method prescribed by or acceptable to the supervisory authority.

- c. The supervisory authority requires insurers to have in place an overall strategic investment policy, approved and reviewed annually by the board of directors, that addresses the following main elements:
 - the risk profile of the insurer
 - the determination of the strategic asset allocation, that is, the long-term asset mix over the main investment categories
 - the establishment of limits for the allocation of assets by geographical area, markets, sectors, counterparties and currency
 - the extent to which the holding of some types of assets is restricted or disallowed, for example illiquid or volatile assets or derivatives
 - the conditions under which the insurer can pledge or lend assets
 - an overall policy on the use of financial derivatives and

<p>structured products that have the economic effect of derivatives (refer to ICP 22)</p> <p>–clear accountability for all asset transactions and associated risks.</p>	
<p>d. The risk management systems must cover the risks associated with investment activities that might affect the coverage of technical provisions and/or solvency margins (capital). The main risks include:</p> <p>–market risk</p> <p>–credit risk</p> <p>–liquidity risk</p> <p>–failure in safe keeping of assets (including the risk of inadequate custodial agreements).</p>	
<p>e. The supervisory authority checks that insurers have in place adequate internal controls to ensure that assets are managed in accordance with the overall investment policy, as well as in compliance with legal, accounting, and regulatory requirements. These controls should ensure that investment procedures are documented and properly overseen. Normally the functions responsible for measuring, monitoring, settling and controlling asset transactions are separate from the front office functions (refer to ICP 10).</p>	
<p>f. The supervisory authority requires that oversight of, and clear management accountability for, an insurer’s investment policies and procedures remain ultimately with the board of directors, regardless of the extent to which associated activities and functions are delegated or outsourced.</p>	
<p>g. The supervisory authority requires that key staff involved with investment activities have the appropriate levels of skills, experience and integrity.</p>	
<p>h. The supervisory authority requires that insurers have in place rigorous audit procedures that include full coverage of their investment activities to ensure the timely identification of internal control weaknesses and operating system deficiencies. If the audit is performed internally it should be independent of the function being reviewed.</p>	
<p>i. The supervisory authority requires that insurers have in place effective procedures for monitoring and managing their asset/liability position to ensure that their investment activities and asset positions are appropriate to their liability and risk profiles.</p>	

j. The supervisory authority requires that insurers have in place contingency plans to mitigate the effects of deteriorating conditions.	
Advanced criteria k. The supervisory authority requires that insurers undertake regular stress testing for a range of market scenarios and changing investment and operating conditions in order to assess the appropriateness of asset allocation limits (refer to ICP 20 AC g and ICP 23 AC j).	
*Note: O-Observed; LO-Largely Observed; PO-Partly Observed; NO-Not Observed; NA-Not Applicable.	

Assessment:

(Please continue on a separate page if necessary)

Principle 22: Derivatives and similar commitments

The supervisory authority requires insurers to comply with standards on the use of derivatives and similar commitments. These standards address restrictions in their use and disclosure requirements, as well as internal controls and monitoring of the related positions.

	O/LO/PO/NO/NA *
<p>Essential criteria</p>	
<p>a. Requirements regarding the use of derivatives are in place, either in the law or in supervisory rules. The requirements consider the risks in the use of derivatives and similar commitments.</p>	
<p>b. The supervisory authority establishes disclosure requirements for derivatives and similar commitments.</p>	
<p>c. The supervisory authority requires the board of directors to satisfy itself that collectively the board has sufficient expertise to understand the important issues related to the use of derivatives, and that all individuals conducting and monitoring derivatives activities are suitably qualified and competent.</p>	
<p>d. The supervisory authority requires insurers using derivatives to have in place an appropriate policy for their use that must be approved and reviewed annually by the board of directors. This policy should be consistent with the insurer’s activities, its overall strategic investment policy and asset/liability management strategy, and its risk tolerance. It addresses at least the following elements:</p> <ul style="list-style-type: none"> –the purposes for which derivatives can be used –the establishment of appropriately structured exposure limits for derivatives taking into account the purpose of their use and the uncertainty caused by market, credit, liquidity, operations and legal risk –the extent to which the holding of some types of derivatives is restricted or not authorised; for example, where the potential exposure cannot be reliably measured, the closing out or disposal of the derivative could be difficult due to its lack of marketability (as may be the case with over-the-counter instruments) or the illiquidity of the market, or where independent (i.e. external) verification of pricing is not available –the delineation of lines of responsibility and a framework of accountability for derivatives transactions. 	
<p>e. The supervisory authority requires that insurers have in place risk</p>	

<p>management systems, covering the risks from derivatives activities to ensure that the risks arising from all derivatives transactions undertaken by the insurer can be:</p> <ul style="list-style-type: none"> – analysed and monitored individually and in aggregate – monitored and managed in an integrated manner with similar risks arising from nonderivatives activities so that exposures can be regularly assessed on a consolidated basis. 	
<p>f. The supervisory authority requires that insurers have in place adequate internal controls to ensure that derivatives activities are properly overseen and that transactions have been entered into only in accordance with the insurer’s approved policies and procedures, and legal and regulatory requirements. These controls ensure appropriate segregation between those who measure, monitor, settle and control derivatives and those who initiate transactions (refer to ICP 10).</p>	
<p>g. The supervisory authority requires that insurers have in place personnel with appropriate skills to vet models used by the front office and to price the instruments used, and that pricing follows market convention. These functions should also be separate from the front office.</p>	
<p>h. The supervisory authority requires that the board of directors ensure that the insurer has the appropriate capability to verify pricing independently where the use of ‘over-the-counter’ derivatives is permitted under the insurer’s policy.</p>	
<p>i. The supervisory authority requires that insurers have in place rigorous audit procedures that include coverage of their derivatives activities to ensure the timely identification of internal control weaknesses and operating system deficiencies. If the audit is performed internally it should be independent of the function being reviewed.</p>	
<p>*Note: O-Observed; LO-Largely Observed; PO-Partly Observed; NO-Not Observed; NA-Not Applicable.</p>	

Assessment:

(Please continue on a separate page if necessary)

Principle 23: Capital adequacy and solvency

The supervisory authority requires insurers to comply with the prescribed solvency regime. This regime includes capital adequacy requirements and requires suitable forms of capital that enable the insurer to absorb significant unforeseen losses.

	O/LO/PO/NO/NA *
Essential criteria	
a. The solvency regime addresses in a consistent manner: –valuation of liabilities, including technical provisions and the margins contained therein –quality, liquidity and valuation of assets –matching of assets and liabilities –suitable forms of capital –capital adequacy requirements.	
b. Any allowance for risk mitigation or transfer considers both its effectiveness and the security of any counterparty.	
c. Suitable forms of capital are defined.	
d. Capital adequacy requirements are sensitive to the size, complexity and risks of an insurer’s operations, as well as the accounting requirements that apply to the insurer.	
e. The minimum capital adequacy requirements should be set at a sufficiently prudent level to give reasonable assurance that policyholder interests will be protected.	
f. Capital adequacy requirements are established at a level such that an insurer having assets equal to the total of liabilities and required capital will be able to absorb significant unforeseen losses.	
g. Solvency control levels are established. Where the solvency position reaches or falls below one or more control levels, the supervisory authority intervenes and requires corrective action by the insurer or imposes restrictions on the insurer. The control level is set so that corrective action can be taken in a timely manner (refer to ICP 14).	
h. Inflation of capital – through double or multiple gearing, intra-group transactions, or other financing techniques available as a result of the insurer’s membership in a corporate group – is addressed in the capital adequacy and solvency calculation	

(refer to ICP 17).	
i. The solvency regime addresses the requirements placed upon an insurer operating through a branch.	
Advanced criteria	
j. The solvency regime provides for periodic, forward-looking analysis (e.g., dynamic solvency/ stress testing) of an insurer's ability to meet its obligations under various conditions (refer to ICP 20 AC g and ICP 21 AC k).	
k. The supervisory authority assesses the structure of its solvency regime against structures of a peer group of jurisdictions and works towards achieving consistency.	
*Note: O-Observed; LO-Largely Observed; PO-Partly Observed; NO-Not Observed; NA-Not Applicable.	

Assessment:

(Please continue on a separate page if necessary)

Markets and consumers (ICP 24 to ICP 27)

Principle 24: Intermediaries	
The supervisory authority sets requirements, directly or through the supervision of insurers, for the conduct of intermediaries.	
	O/LO/PO/NO/NA *
Essential criteria	
a. The supervisory authority requires intermediaries to be licensed or registered.	
b. The supervisory authority requires intermediaries to have adequate general, commercial and professional knowledge and ability as well as having a good reputation.	
c. If necessary, the supervisory authority takes corrective action, including applying sanctions, directly or through insurers, and cancelling the intermediary's licence or registration, when appropriate.	
d. The supervisory authority requires an intermediary who handles client's money to have sufficient safeguards in place to protect these funds.	
e. The supervisory authority requires intermediaries to give customers information on their status, specifically whether they are independent or associated with particular insurance companies and whether they are authorised to conclude insurance contracts on behalf of an insurer or not.	
f. The supervisory authority or other authority must have powers to take action against those individuals or entities that are carrying on insurance intermediation activity without license or registration.	
*Note: O-Observed; LO-Largely Observed; PO-Partly Observed; NO-Not Observed; NA-Not Applicable.	

Assessment:

(Please continue on a separate page if necessary)

Principle 25: Consumer protection

The supervisory authority sets minimum requirements for insurers and intermediaries in dealing with consumers in its jurisdiction, including foreign insurers selling products on a cross-border basis. The requirements include provision of timely, complete and relevant information to consumers both before a contract is entered into through to the point at which all obligations under a contract have been satisfied.

	O/LO/PO/NO/NA *
Essential criteria	
a. The supervisory authority requires insurers and intermediaries to act with due skill, care and diligence in their dealing with consumers.	
b. The supervisory authority requires insurers and intermediaries to have policies on how to treat consumers fairly and to have systems and provide training to ensure compliance with those policies by their employees and other sales collaborators.	
c. The supervisory authority requires insurers and intermediaries to seek the information from their consumers that is appropriate in order to assess their insurance needs, before giving advice or concluding a contract.	
d. The supervisory authority sets requirements for insurers and intermediaries with regard to the content and timing of provision of information: –on the product, including the associated risks, benefits, obligations, and charges –on other matters related to the sale, including possible conflict of interest to existing or potential policyholders.	
e. The supervisory authority requires insurers and intermediaries to deal with claims and complaints effectively and fairly through a simple, easily accessible and equitable process.	
Advanced criteria	
f. The supervisory authority requires insurers and intermediaries to set rules on the handling of customer information paying due regard to the protection of private information of customers.	
g. The supervisory authority gives information to the public about whether and how local legislation applies to the cross-border offering of insurance, such as e-commerce. The supervisor	

Principle 26: Information, disclosure & transparency towards the market

The supervisory authority requires insurers to disclose relevant information on a timely basis in order to give stakeholders a clear view of their business activities and financial position and to facilitate the understanding of the risks to which they are exposed.

	O/LO/PO/NO/NA *
<p>Essential criteria</p> <p>a. Insurers are required to disclose information on their financial position and the risks to which they are subject. Specifically, information disclosed should be:</p> <ul style="list-style-type: none"> – relevant to decisions taken by market participants – timely so as to be available and up-to-date at the time those decisions are made – accessible without undue expense or delay by the market participants – comprehensive and meaningful so as to enable market participants to form a well-rounded view of the insurer – reliable as a basis upon which to make decisions – comparable between different insurers – consistent over time so as to enable relevant trends to be discerned. 	
<p>b. Information includes quantitative and qualitative information on:</p> <ul style="list-style-type: none"> – financial position – financial performance <p>and a description of:</p> <ul style="list-style-type: none"> – the basis, methods and assumptions upon which information is prepared (and comments on the impact of any changes) – risks exposures and how they are managed – management and corporate governance. 	
<p>c. Insurers are required to produce, at least annually, audited financial statements and make them available to stakeholders.</p>	
<p>d. The supervisory authority monitors the information disclosed by insurers and takes the necessary actions to ensure the</p>	

compliance with disclosure requirements.	
Advanced criteria	
e. Information includes quantitative information of relevant risk exposures.	
*Note: O-Observed; LO-Largely Observed; PO-Partly Observed; NO-Not Observed; NA-Not Applicable.	

Assessment:

(Please continue on a separate page if necessary)

Principle 27: Fraud

The supervisory authority requires that insurers and intermediaries take the necessary measures to prevent, detect and remedy insurance fraud.

	O/LO/PO/NO/NA *
Essential criteria	
a. The supervisory authority has the powers and resources to establish and enforce regulations and to communicate as appropriate with enforcement authorities, as well as with other supervisors, to deter, detect, record, report and remedy fraud in insurance.	
b. Legislation addresses insurer fraud.	
c. Claims fraud is a punishable offence.	
d. The supervisory authority requires insurers and intermediaries to ensure high standards of integrity of their business.	
e. The supervisory authority requires that insurers and intermediaries allocate appropriate resources and implement effective procedures and controls to deter, detect, record and, as required, promptly report fraud to appropriate authorities. This function is under the responsibility of senior staff of the insurer and intermediary.	
f. As required, the supervisory authority ascertains that insurers take effective measures to prevent fraud, including providing counter-fraud training to management and staff. The supervisory authority promotes the exchange of information between insurers with respect to fraud and those committing fraud including, as appropriate, through the use of databases.	
g. The supervisory authority co-operates with other supervisory authorities including, as appropriate, in other jurisdictions in countering fraud.	
*Note: O-Observed; LO-Largely Observed; PO-Partly Observed; NO-Not Observed; NA-Not Applicable.	

Assessment:

(Please continue on a separate page if necessary)

Anti-money laundering, combating the financing of terrorism (ICP 28)

<p>Principle 28: Anti-money laundering, combating the financing of terrorism (AML/CFT)</p> <p>The supervisory authority requires insurers and intermediaries, at a minimum those insurers and intermediaries offering life insurance products or other investment related insurance, to take effective measures to deter, detect and report money laundering and the financing of terrorism consistent with the Recommendations of the Financial Action Task Force on Money Laundering (FATF).</p>	
	O/LO/PO/NO/NA *
Essential criteria	
a. The measures required under the AML/CFT legislation and the activities of the supervisors should meet the criteria under those FATF Recommendations applicable to the insurance sector ³¹ .	
b. The supervisory authority has adequate powers of supervision, enforcement and sanction in order to monitor and ensure compliance with AML/CFT requirements. Furthermore, the supervisory authority has the authority to take the necessary supervisory measures to prevent criminals or their associates from holding or being the beneficial owner of a significant or controlling interest or holding a management function in an insurer or an intermediary.	
c. The supervisory authority has appropriate authority to co-operate effectively with the domestic Financial Intelligence Unit (FIU) and domestic enforcement authorities, as well as with other supervisors both domestic and foreign, for AML/CFT purposes.	
d. The supervisory authority devotes adequate resources - financial, human and technical - to AML/CFT supervisory activities.	
e. The supervisory authority requires insurers and intermediaries, at a minimum those insurers and intermediaries offering life insurance products or other investment related insurance, to comply with AML/CFT requirements, which are consistent with the FATF Recommendations applicable to the insurance sector, including: –performing the necessary customer due diligence (CDD) on customers, beneficial owners and beneficiaries	

³¹ See FATF Recommendation 4-6, 8-11, 13-15, 17, 21-23, 25, 29-32 and 40 as well as Special Recommendations IV, V and the AML/CFT Methodology for a description of the complete set of AML/CFT measures that are required.

ANNEX 1 - REFERENCES

Conditions for effective supervision

ICP 1	Conditions for effective insurance supervision
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The supervisory system

ICP 2	Supervisory objectives
ICP 3	Supervisory authority
ICP 4	Supervisory process
ICP 5	Supervisory cooperation and information sharing

References:

- Principles No. 2. Principles Applicable to the Supervision of International Insurers and Insurance Groups and their Cross-Border Business Operations (*Approved December 1999*)
- Principles No. 6. Principles on Minimum Requirements for Supervision of Reinsurers (*Approved October 2002*)
- Supervisory Standard No. 6. Supervisory Standard on the Exchange of Information (*Approved January 2002*)
- Supervisory Standard No 8: Standard on Supervision of Reinsurers
- Guidance Paper No. 2. A Model Memorandum of Understanding (to facilitate the exchange of information between financial supervisors) (*Approved September 1997*)
- IMF's Code of Good Practices on Transparency in Monetary and Financial Policies: Declaration of Principles (*September 1999 and July 2000*)

The supervised entity

ICP 6	Licensing
ICP 7	Suitability of persons
ICP 8	Changes in control and portfolio transfers
ICP 9	Corporate governance
ICP 10	Internal control

References:

- Principles No. 2. Principles Applicable to the Supervision of International Insurers and Insurance Groups and their Cross-Border Business Operations (*Approved December 1999*)
- Principles No. 6. Principles on Minimum Requirements for Supervision of Reinsurers (*Approved October 2002*)
- Supervisory Standard No. 1. Supervisory Standard on Licensing (*Approved October 1998*)
- Supervisory Standard No.3. Supervisory Standard on Derivatives (*Approved October 1998*)
- Supervisory Standard No.4. Supervisory Standard on Asset Management by Insurance Companies (*Approved December 1999*)

- Supervisory Standard No.7. Supervisory Standard on the Evaluation of the Reinsurance Cover (*Approved January 2002*)
- Supervisory Standard No 8: Standard on Supervision of Reinsurers
- Guidance Paper No 1. Guidance on Insurance Regulation and Supervision for Emerging Market Economies (*Approved September 1997*)
- Guidance Paper No. 2. A Model Memorandum of Understanding (to facilitate the exchange of information between financial supervisors) (*Approved September 1997*)
- Guidance Paper No. 3. Guidance Paper for Fit And Proper Principles and their Application (*Approved October 2000*)
- Guidance Paper No 7: The Use of Actuaries as Part of a Supervisory Model (*Approved October 2003*)

On-going Supervision

ICP 11	Market analysis
ICP 12	Reporting to supervisors and off-site monitoring
ICP 13	On-site inspection
ICP 14	Preventive and corrective measures
ICP 15	Enforcement or sanctions
ICP 16	Winding-up & exit from the market
ICP 17	Group-wide supervision

References:

- Principles No. 6. Principles on Minimum Requirements for Supervision of Reinsurers (*Approved October 2002*)
- Supervisory Standard No. 2. Supervisory Standard on On-Site Inspections (*Approved October 1998*)
- Supervisory Standard No. 5. Supervisory Standard on Group Coordination (*Approved October 2000*)
- Supervisory Standard No. 7. Supervisory Standard on the Evaluation of the Reinsurance Cover (*Approved January 2002*)
- Guidance Paper No 6: Solvency Control Levels (*Approved October 2003*)
- Joint Forum papers pertaining to:
 - coordination
 - supervisory information sharing
 - capital adequacy
 - fit and proper tests
 - intra-group transactions and exposures
 - risk concentrations

Prudential requirements

ICP 18	Risk assessment and management
ICP 19	Insurance activity

ICP 20	Liabilities
ICP 21	Investments
ICP 22	Derivatives and similar commitments
ICP 23	Capital adequacy and solvency

References:

- Principles No. 5. Principles on Capital Adequacy and Solvency (*Approved January 2002*)
- Principles No. 6. Principles on Minimum Requirements for Supervision of Reinsurers (*Approved October 2002*)
- Supervisory Standard No. 3. Supervisory Standard on Derivatives (*Approved October 1998*)
- Supervisory Standard No. 4. Supervisory Standard on Asset Management by Insurance Companies (*Approved December 1999*)
- Supervisory Standard No. 7. Supervisory Standard on the Evaluation of the Reinsurance Cover (*Approved January 2002*)
- Supervisory Standard No 8: Standard on Supervision of Reinsurers (*Approved October 2003*)
- Guidance Paper No 6: Solvency Control Levels (*Approved October 2003*)
- Guidance Paper No 7: The Use of Actuaries as Part of a Supervisory Model (*Approved October 2003*)
- Guidance Paper No 8: Stress Testing by Insurers (*Approved October 2003*)
- Discussion Paper Quantifying and Assessing Insurance Liabilities - January 2003

Markets and consumers

ICP 24	Intermediaries
ICP 25	Consumer protection
ICP 26	Information, disclosure & transparency towards the market
ICP 27	Fraud

References:

- Principles No. 3. Principles for the Conduct of Insurance Business (*Approved December 1999*)
- Principles No. 4. Principles on the Supervision of Insurance Activities on the Internet (*Approved October 2000*)
- Guidance Paper No. 4. Guidance Paper on Public Disclosure by Insurers (*Approved January 2002*)

Anti-money laundering/ Combating the Financing of Terrorism

ICP 28	Anti-money laundering/ Combating the Financing of Terrorism
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References:

- Guidance Paper No. 5. Anti-Money Laundering Guidance Notes for Insurance Supervisors and Insurance Entities (*Approved January 2002*)
- Methodology for Assessing Compliance with Anti-Money Laundering and Combating the Financing of Terrorism Standards (*prepared IMF, World Bank, Financial Action Task Force and approved by at an FATF plenary meeting October 2002*)