

**INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS**



**INSURANCE CORE PRINCIPLES
SELF-ASSESSMENT QUESTIONNAIRE**

October 2000

IAIS Insurance Core Principles Self-Assessment Programme

At its Annual Meeting in September 1997 the IAIS approved the general principles of insurance supervision set out in the paper Insurance Supervisory Principles. The principles were reinforced and adopted as Insurance Core Principles at its Annual Conference in 2000. These principles identify key aspects of a regulatory framework as well as the role of the supervisor in ensuring the framework is effectively administered. Insurance supervisors are expected to carry out a self-assessment to determine whether the principles are being observed in their jurisdiction. This self-assessment programme has been developed to assist members in evaluating observance.

The IAIS recognises that there is a broad diversity in the regulatory frameworks in member jurisdictions. The purpose of the self-assessment programme is to give members the opportunity to assess the framework of regulation and supervision in their jurisdiction against these principles, identify strengths and weaknesses in the supervisory system, develop an action programme that prioritises the improvements needed to establish and maintain a sound insurance regulatory and supervisory system, and to implement the plan. The self-assessment should not be used just to self-grade the supervisory system; it should be used to review the system objectively and comprehensively in order to improve it. The results 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.

2. Overview

The self-assessment programme consists of two parts:

- a summary assessment; and
- the self-assessment questionnaire.

Prior to conducting the self-assessment, an assessor should read carefully the Insurance Core Principles Methodology, in particular the section '1.3 Use of the Methodology'.

Summary self-assessment

On this form, members are asked to assess their observance of each principle. The degrees of observance identified are:

- observed;
- largely observed;
- materially non-observed;
- non-observed;
- not applicable (responsibility rests elsewhere)

A Principle will be considered **observed** whenever all essential criteria are generally met without deficiencies. There may be instances where a jurisdiction can demonstrate a principle is observed through different means. Conversely, due to the specific conditions in individual jurisdictions, the essential criteria may not always be sufficient to achieve the objective of the principle, and therefore additional criteria and/or other measures may also be deemed necessary to judge that observance is achieved. A principle will be considered **largely observed** whenever only minor shortcomings are observed, which do not raise any concerns about the authority's ability and intent to achieve full observance with the principle within a prescribed period of time. A principle will be considered **materially non-observed** whenever, despite progress, there are clear shortcomings in achieving observance. A principle will be considered **non-observed** whenever no substantive progress towards observance has been achieved. A principle will be considered **not applicable** whenever the principle does not apply given the structural, legal and institutional features of a jurisdiction.

In many cases the criteria state the legal basis or supervisory powers and measures. However, they cover not only the existence of the legal basis or supervisory powers and measures, but also the enforcement of them. Thus, if an insurance supervisor has the authority but he does not exercise it properly or does not have capacity to exercise it, then he should regard himself as non-observant of the criterion.

Where a member is not in observance of a principle, it is asked to either include an action plan for attaining observance when it plans to observe, or explain why it has no plans to observe. In addition, members are asked to indicate in what areas IAIS assistance is needed.

Self-assessment questionnaire

The self-assessment questionnaire is provided as a checklist for members to use in evaluating the regulatory and supervisory framework in their jurisdiction, against the principles. There are questions posed for each principle and criteria requiring an answer: observed/largely observed/materially non-observed/non-observed/not applicable. Members are also requested to present a qualitative assessment of the degree of compliance with each principle. The answers to the questionnaire will form the basis for the summary assessment.

3. Timing and Filing Requirements

Members are asked to assess their adherence to the Insurance Supervisory Principles as at 1 December 2000 and to file both the summary self-assessments and the self-assessment questionnaire with the Secretariat **by 28 February 2001**. Where the regulatory and supervisory frameworks differ, jurisdictions should file separate returns for life insurance and non-life (general) insurance.

4. 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 framework

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

In terms of individual responses, members are encouraged to allow the IAIS to disclose their self-assessments through the IAIS website in order to enhance mutual understanding and transparency. However, the extent of disclosure of individual responses will remain with each member and their decision will be respected.

Insurance Core Principles Self-Assessment

Each member is requested to carry out a self-assessment of adherence to the IAIS Insurance Core Principles as at 1 December 2000 and submit the summary self-assessment and self-assessment questionnaire to the Secretariat of the IAIS, c/o Bank for International Settlements, CH-4002 Basel, Switzerland, by e-mail (elspeth.cornes@bis.org) by **28 February 2001**. (If you are unable to return the questionnaire by e-mail, you may fax it on +41 61 280 9151.)

Name of Authority _____

Address _____

Covering the regulatory and supervisory framework for:

- life and non-life (general) insurance
- life insurance only
- non-life (general) insurance only

Date of Submission _____

Principal Contact _____

Phone Number _____

Fax Number _____

E-mail Address _____

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, and to IMF and World Bank (as independent assessors)
- disclose to IAIS members only through the members area of the website
- do not disclose the self-assessments

Insurance Core Principles 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.

Name of Authority: _____

Core Principle	Classification	O/LO/MNO/ NO/NA *
Principle 1	Organisation of an Insurance Supervisor	
Principle 2	Licensing	
Principle 3	Changes in Control	
Principle 4	Corporate Governance	
Principle 5	Internal Controls	
Principle 6	Assets	
Principle 7	Liabilities	
Principle 8	Capital Adequacy and Solvency	
Principle 9	Derivatives and 'off-balance sheet' items	
Principle 10	Reinsurance	
Principle 11	Market Conduct	
Principle 12	Financial Reporting	
Principle 13	On-site Inspection	
Principle 14	Sanctions	
Principle 15	Cross-border Business Operations	
Principle 16	Coordination and Cooperation	
Principle 17	Confidentiality	
<p>*Note: O = observed; LO = largely observed; MNO = materially non-observed; NO = non-observed; NA = not applicable.</p>		

Where you are not in observance of a principle (non-observed or materially non-observed) but plan to observe, please write down the following issues **for each principle separately**. If necessary, please continue on a separate piece of paper:

1. identify the principle;
2. identify the reasons for non-observance or materially non-observance;
3. submit an action plan with a timetable for attaining observance;
4. indicate requests to the IAIS for assistance needed to achieve observance.

Insurance Core Principles 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 criteria (essential and additional) in the column provided (O/LO/etc.).
- The qualitative assessment should contain a discussion of the reasons underlying the assessment. The discussion should in principle include
 - (i) relevant insurance laws, regulations, practices including supervisory tools and instruments, which apply to each criteria,
 - (ii) institutional capacity of the supervisory authority to implement relevant rules and practices, and
 - (iii) any other information you consider is relevant to the assessment.

Before filling out the questionnaire, please read carefully the Insurance Core Principles (IAIS, October 2000) and the Insurance Core Principles Methodology (IAIS, October 2000).

Detailed Assessment

Principle 1: Organisation of an Insurance Supervisor

The insurance supervisor of a jurisdiction must be organised so that it is able to accomplish its primary task, i.e. to maintain efficient, fair, safe and stable insurance markets for the benefit and protection of policyholders. It should at any time be able to carry out this task efficiently in accordance with the Insurance Core Principles. In particular the insurance supervisor should:

- be operationally independent and accountable in the exercising of its functions and powers;
- have adequate powers, legal protection and financial resources to perform its functions and exercise its powers;
- adopt a clear, transparent and consistent regulatory and supervisory process;
- clearly define the responsibility for decision making; and
- hire, train and maintain sufficient staff with high professional standards who follow the appropriate standards of confidentiality.

	O/LO/ MNO /NO/NA *
<p><i>Essential criteria</i></p> <ol style="list-style-type: none"> 1. The responsibilities of the insurance supervisor are clear and objectively stated. 2. The insurance supervisor is operationally independent from both political authorities and the insurance companies that it supervises in the execution of its supervisory tasks and is accountable in the exercise of its functions and powers. 3. The insurance supervisor has adequate powers, legal protection and proper resources and staff, and the capacity to perform its functions and exercise its powers. 4. The insurance supervisor adopts clear, transparent and consistent regulatory and supervisory processes. The rules and procedures of the insurance supervisor are published and updated regularly. 5. The decision-making lines of the insurance supervisor are structured so that action can be taken immediately in the case of an emergency situation. 6. The staff of the insurance supervisor observes the highest professional standards including appropriate standards of confidentiality. 7. The insurance supervisor establishes an employment system to hire, train and maintain the staff with the highest professional standards. 8. Remuneration paid by the insurance supervisor is such that it is able to employ and keep highly qualified staff. 9. The insurance supervisor is able to use its funds flexibly so that it can react flexibly and quickly. Necessary activities (e.g. international cooperation) and actions (e.g. on-site inspections) should not fail for budgetary reasons. 10. If its own capacities are not sufficient, the insurance supervisor should be able to outsource to third parties (e.g. auditors, actuaries) supervisory tasks such as on-site inspections and monitoring the solvency position or the sufficiency of technical provisions (policy liabilities). Where functions are outsourced to third parties, the insurance supervisor is able to: <ul style="list-style-type: none"> • assess the competence; • monitor the performance (for instance, through reviewing working papers); and • ensure the independence from the company and the consideration they give to the protection of the policyholders' interests. <p>Third parties are subject to the same legal requirements, in particular</p> 	

Companies wishing to underwrite insurance in the domestic insurance market should be licensed. Where the insurance supervisor has authority to grant a licence, the insurance supervisor:

- in granting a licence, should assess the suitability of owners, directors, and/or senior management, and the soundness of the business plan, which could include pro forma financial statements, a capital plan and projected solvency margins; and
- in permitting access to the domestic market, may choose to rely on the work carried out by an insurance supervisor in another jurisdiction if the prudential rules of the two jurisdictions are broadly equivalent.

Note: This Principle is divided into three component parts. The Supervisory Standard on Licensing should be referred to in order to obtain a full view of licensing and changes in control.

<p>2 (1): Companies wishing to underwrite insurance in the domestic insurance market should be licensed.</p>	
<p><i>Essential criteria</i></p> <ol style="list-style-type: none"> 1. Legal provisions on licensing are in place through the insurance supervision law. 2. These legal provisions define the types of company or entity that are insurance companies or entities, and the insurers which must be licensed or define insurance business and prescribe that all of entities writing insurance business must be licensed. 3. These legal provisions also contain regulations defining the authority responsible for licensing, its tasks, and the licensing requirements. <p><i>Additional criteria</i></p> <ol style="list-style-type: none"> 1. The licensing authority makes directives or guidelines available to insurance companies. These directives or guidelines give information on the requirements that are to be met if the licence is to be granted. 2. A regulation on what is to be considered ‘insurance business’ exists, either in a law or in the established practice of the courts. 	<p>O/LO/ MNO /NO/NA *</p>
<p>*Note: O = observed; LO = largely observed; MNO = materially non-observed; NO = non-observed; NA = not applicable.</p>	

Assessment

<p>holders of a qualifying participation:</p> <ul style="list-style-type: none"> - are in an economic situation which may be hazardous to the soundness of the applicant; - do not have sufficient resources to keep the company solvent on an on-going basis; - are or have been directly or indirectly involved in illegal transactions affecting their suitability, or intend to abuse the insurer for criminal purposes (e.g. money laundering); or - are connected with the applicant company in a way that would obstruct or render effective supervision impossible. <ul style="list-style-type: none"> • Criteria similar to those applied to directors and/or senior management (see below) can be applied to check the reliability of natural persons. As far as legal persons are concerned, the insurance supervisor applies the criterion of suitability to the persons running the company; the insurance supervisor is authorised to ask for submission of audit reports and other key information such as extracts from the statutory records (the register of commerce). • The insurance supervisor has the power to exchange information with other relevant authorities inside and outside its jurisdiction which respect minimum reciprocity and confidentiality requirements. <p>4. As regards directors and/or senior managers (key functionaries), the insurance supervisor should assess their fitness and propriety as follows:</p> <ul style="list-style-type: none"> • fitness tests seek to assess the competence of managers and directors and their capacity to fulfil the responsibilities of their positions while propriety tests seek to assess their integrity and suitability; • the requirements could, however, depend on the area for which the person concerned will be responsible given that all necessary qualifications are present on the board of directors; and • if, in special cases, senior management functions (e.g. authorised representative of a foreign branch) are performed by a company (legal person), the insurance supervisor should be assured that the representatives of that company are qualified, reliable and of good repute. <p>5. The insurance supervisor has the authority to deny the licence on the basis of facts from which it could be deduced that the person concerned will not manage the insurance company in a proper fashion (a previous conviction especially for an offence committed in connection with financial services; participation in unsound transactions; bankruptcies caused by dishonesty; tax evasion).</p> <p>6. Within the framework of the fit and proper test (the test of possessing the necessary knowledge, skills and integrity for his/her position), the</p>	
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<p>applicant is required to submit a complete curriculum vitae and to provide a declaration from the proposed owners and directors/senior managers confirming that no criminal proceedings are or have been pending against them.</p> <ol style="list-style-type: none"> 7. The applicant is required to submit a business plan outlining the proposed business of the company for at least three years ahead. 8. The business plan provides information on the types of obligation the company proposes to incur (in the case of life insurance); the types of risk it proposes to cover (in the case of non-life insurance); the basic principles of the company's insurance and reinsurance program; the estimated setting-up costs and the financial means to be used for this purpose; and the projected development of business and capital or solvency margins. 9. A minimum amount of capital is required for all insurance companies. 10. The insurance supervisor has the ability to check affiliation or outsourcing contracts and, where material, exercise this ability. 11. The insurance supervisor has the authority to request and check information on the products offered by the insurer (general policy conditions, technical basis for the calculation of premium rates and provisions). 12. The documents of formation as well as information on actuaries and auditors are to be provided. 13. A company licensed to operate life insurance should not also be licensed to operate non-life insurance and vice versa, unless there are clear provisions, which the insurance supervisor finds satisfactory, requiring that risks be handled separately on both a going-concern and a winding-up basis. 14. The insurance supervisor has the right to withdraw the licence on the grounds of substantial irregularities; e.g. if the company no longer meets the licensing requirements or seriously infringes the law in force. 15. Where an authority granting licences is different from that conducting on-going supervision, 16. the authority granting licences ensures that the legal and prudential criteria which are applied in the process of checking the licence application are in line with the criteria on which on-going supervision will be based; <ul style="list-style-type: none"> • the authority in charge of on-going supervision is given the right to check the application documents and give its opinion; • the insurance supervision law provides that the authority in charge of on-going supervision is to be notified of changes in criteria that are relevant for granting the licence; • the authority in charge of on-going supervision is informed of the 	
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and branch operations of companies incorporated in another jurisdiction.

Note: Insurers should be committed to achieving regulatory objectives and demonstrate a respect for the spirit and intent of the laws. The insurance supervisor requires that the level of observance be assessed regularly to ensure that regulatory requirements are fully met.

The criteria listed below may be governed in whole or part by the general corporate law of the jurisdiction, in which case the insurance supervisor's responsibilities will be addressed primarily towards verifying and enforcing observance of those requirements where responsibility for this does not reside elsewhere.

	O/LO/ MNO /NO/NA *
<p><i>Essential criteria</i></p> <ol style="list-style-type: none"> 1. The insurance supervisor has the authority to require boards of directors to clearly set out their responsibilities towards acceptance of and commitment to the specific corporate governance principles for their undertaking. 2. The insurance supervisor has the authority to require boards or directors to clearly set out their strategic objectives. 3. The insurance supervisor has the authority to require boards of directors to set out the means of attaining those objectives and procedures for monitoring and evaluating their progress toward those objectives. 4. The insurance supervisor has the authority to require boards of directors to clearly set out the nomination and appointment procedures, structure, functions, re-elections and balance between executive and non-executive directors of the board in a transparent manner. 5. The insurance supervisor has the authority to require boards of directors to clearly distinguish between the responsibilities, accountabilities, decision-making, interaction and cooperation of the board of directors, chairman, chief executive and management. 6. The insurance supervisor has the authority to require a clear division of responsibilities which will ensure a balance of power and authority, so that no one individual has unfettered powers of decision. Where the posts of chairman and chief executive are combined in one person, the insurance supervisor has the authority to verify that appropriate controls are in place to ensure that management is sufficiently accountable to the board or directors. 7. The insurance supervisor has the authority to require boards of directors to have in place and to monitor independent risk management functions related to the type of business undertaken. 	

<p>8. The insurance supervisor has the authority to require boards of directors to have in place external audit functions, strong internal controls and applicable checks and balances.</p> <p>9. The insurance supervisor has the authority to require boards of directors to have in place clear complaints procedures and to communicate them properly to their customers.</p> <p><i>Additional criteria</i></p> <p>1. The insurance supervisor has the authority to require boards of directors to clearly set out policies regarding conflicts of interest, fair treatment of customers and information sharing with stakeholders.</p> <p>2. The insurance supervisor has the authority to require boards of directors to have clear 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-arms length nature. The insurance supervisor has the authority to ensure that systems are in place to monitor and report deviations to an appropriate level of management.</p> <p>3. The insurance supervisor has the authority to require boards of directors to ensure that they are not subject to undue influence from management or outside concerns.</p> <p>4. The insurance supervisor has the authority to require boards of directors to make proper and full disclosure in their annual reports of their level of adherence to corporate governance principles and attainment of stated corporate objectives.</p> <p>5. The insurance supervisor has the authority to require boards of directors to adopt a goal of improving customer awareness and knowledge.</p> <p>6. The insurance supervisor has the authority to require boards of directors to create a functionary known as the compliance officer to oversee observance by the institution and its staff with relevant laws and required standards of business conduct, and to report to the board of directors at regular intervals.</p> <p>7. The insurance supervisor has the authority to require boards of directors to have in place a proper remuneration policy for directors and senior management, to review that policy periodically, and to disclose it to the insurance supervisor or to the public consistent with the applicable standards of the jurisdiction.</p>	
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*Note: O = observed; LO = largely observed; MNO = materially non-observed; NO = non-observed; NA = not applicable.

Assessment

<p>provisions (policy liabilities), investment and liquidity management and reinsurance.</p> <ol style="list-style-type: none"> 3. The insurance supervisor has the authority to require the board of directors to provide suitable oversight of market conduct activities such as setting standards and monitoring controls on fair treatment of customers; proper disclosure to customers of policy benefits, risks and responsibilities; conflicts of interest; handling of clients money; and separation of principal and agent activities. 4. The insurance supervisor has the authority to require internal controls to address issues of an organisational structure; i.e. of duties and responsibilities including clear delegation of authority, decision-making procedures, separation of critical functions (for example, new business, claims, reconciliation, risk management, accounting, audit and compliance). 5. The insurance supervisor has the authority to require internal controls to address accounting procedures, reconciliation of accounts, control lists and information for management. 6. The insurance supervisor has the authority to require internal controls to address checks and balances; e.g. segregation of duties, cross-checking, dual control of assets, double signatures. 7. The insurance supervisor has the authority to require controls on safeguarding of assets and investments, including physical control. 8. The insurance supervisor has the authority to require that the insurer has an ongoing audit function of a nature and scope appropriate to the nature and scale of 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. The insurance supervisor should determine whether the audit function: <ul style="list-style-type: none"> • has unfettered access to all the insurer's business lines and support departments; • has appropriate independence, including reporting lines to the board of directors and 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; and • employs a methodology that identifies the key risks run by the institution and allocates its resources accordingly. 9. The insurance supervisor has the authority to require that insurers have formal procedures to recognise potential suspicious transactions. 	
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(Please continue on a separate sheet if necessary)

Principle 6: Assets

Standards should be established with respect to the assets of companies licensed to operate in the jurisdiction. Where insurance supervisors have the authority to establish the standards, these should apply at least to an amount of assets equal to the total of the technical provisions, and should address:

- diversification by type;
- any limits or restrictions on the amount that may be held in financial instruments, property, and receivables;
- the basis for valuing assets which are included in the financial reports;
- the safekeeping of assets;
- appropriate matching of assets and liabilities; and
- liquidity.

Note: The Supervisory Standard on Asset Management by Insurance Companies should be referred to in order to obtain a full view of asset management control.

It is not intended through these criteria that an insurance supervisor should advise on the detailed formulation of an insurance company's asset management policy and internal risk control methodology; this should be the responsibility of the board of directors.

	O/LO/ MNO /NO/NA *
<p><i>Essential criteria</i></p> <ol style="list-style-type: none"> 1. Legal provisions on asset management are in place. These legal provisions may define the following: mixture and diversification by type; any limits, or restrictions on the amount that may be held in financial instruments, property, and receivables; the basis for valuing assets which are included in the financial reports; the safekeeping of assets; appropriate matching of assets and liabilities; and liquidity. 2. Assets are valued on a basis prescribed by or acceptable to the insurance 	

<p>supervisor.</p> <p>3. The insurance supervisor has the authority to require insurers to have in place an overall strategic investment policy, formulated and approved by the board of directors, that addresses the following main elements:</p> <ul style="list-style-type: none"> • 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 ruled out or restricted, for example where the disposal of the asset could be difficult due to the illiquidity of the market or where independent (i.e. external) verification of pricing is not available; • under what conditions the company can pledge or lend assets; • an overall policy on the use of financial derivatives or of structured products that have the economic effect of derivatives or the explicit exclusion of the use of such products or of certain types of such products; and • the framework of accountability for all asset transactions. <p>4. The insurance supervisor requires insurers to have in place comprehensive risk management policies and systems capable of promptly identifying, measuring, reporting and controlling the risks associated with investment activities that might affect the coverage of technical provisions (policy liabilities) and/or solvency margins (capital). These main risks are:</p> <ul style="list-style-type: none"> • market risk (adverse movements in, for example, stocks, bonds and exchange rates); • credit risk (counterparty failure); • liquidity risk (inability to unwind a position at any price near fair market value); • operational risk (system/internal control failure); • legal risk; and • safe keeping of assets. <p>5. The insurance supervisor checks that insurers have in place adequate internal controls to ensure that assets are managed in accordance with the overall investment policy, and the legal and regulatory requirements. These controls should ensure that investment procedures are documented and properly overseen, and that the functions responsible for measuring, monitoring, settling and controlling asset transactions are distinct from the front office functions.</p> <p>6. The insurance supervisor requires that oversight of, and clear management accountability for, an insurer's investment policies and procedures</p>	
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(Please continue on a separate sheet if necessary)

<p>Principle 7: Liabilities</p> <p>Insurance supervisors should establish standards with respect to the liabilities of companies licensed to operate in their jurisdiction. In developing the standards, the insurance supervisor should consider:</p> <ul style="list-style-type: none"> - what is to be included as a liability of the company, for example, claims incurred but not paid, claims incurred but not reported, amounts owed to others, amounts owed that are in dispute, premiums received in advance, as well as the provision for policy liabilities or technical provisions that may be set by an actuary; - the standards for establishing policy liabilities or technical provisions; and - the amount of credit allowed to reduce liabilities for amounts recoverable under reinsurance arrangements with a given reinsurer, making provision for the ultimate collectability. 	
	<p>O/LO/ MNO /NO/NA *</p>
<p><i>Essential criteria</i></p> <ol style="list-style-type: none"> 1. Legal provisions are in place for establishing technical provisions (policy liabilities) and other liabilities based on sound accounting and actuarial principles. 2. The insurance supervisor has the authority to prescribe standards for establishing technical provisions (policy liabilities) and other liabilities. 3. The insurance supervisor has the authority to: <ul style="list-style-type: none"> • check the sufficiency of the technical provisions (policy liabilities) which at all times are such that the insurance company can meet any estimated insurance liabilities as they fall due; and • require these provisions (liabilities) to be increased if necessary. 4. The insurance supervisor assesses the adequacy of the technical provisions (policy liabilities) as deemed necessary through on-site and off-site inspections. 5. When the insurance company has reinsured part of its risks, the insurance supervisor: 	

(Please continue on a separate sheet if necessary)

Principle 8: Capital Adequacy and Solvency

The requirements regarding the capital to be maintained by companies which are licensed or seek a licence in the jurisdiction, should be clearly defined and should address the minimum levels of capital or the levels of deposits that should be maintained. Capital adequacy requirements should reflect the size, complexity, and business risks of the company in the jurisdiction.

	O/LO/ MNO /NO/NA *
<p><i>Essential criteria</i></p> <ol style="list-style-type: none"> 1. Legal provisions address the three components of solvency, i.e. the ability of the insurance company to fulfil its commitments at any time: <ul style="list-style-type: none"> • the level of technical provisions (policy liabilities); • the adequate coverage of technical provisions (policy liabilities) by assets; • an additional buffer (required minimum solvency margins – minimum capital adequacy requirements). 2. The main control levels of these components ensure, with a very high probability, that the insurer is able to meet its obligations at any time. 3. The insurance supervisor has the authority to monitor these three components. 4. The required minimum solvency margins (capital) depends on the size, complexity and the business risks of the insurance company. 5. A minimum amount of capital, depending on the types of business the insurer is entitled to write and staying in line with developing cost and price, is required for all insurance companies. 6. The components of solvency margins, i.e. capital elements which are considered as free capital for regulatory purposes, are clearly defined. 7. At given time intervals, the company assesses the amount of its available solvency margins (capital). 8. Where the capital available reaches or falls below one or more control levels, the insurance supervisor has the authority to intervene or impose restrictions. 9. The insurance supervisor has the authority to intervene to require an insurance company to hold capital at a higher level than the required 	

(Please continue on a separate sheet if necessary)

Principle 9: Derivatives and ‘off-balance sheet’ items

The insurance supervisor should be able to set requirements with respect to the use of financial instruments that may not form a part of the financial report of a company licensed in the jurisdiction. In setting these requirements, the insurance supervisor should address:

- restrictions in the use of derivatives and other off-balance sheet items;
- disclosure requirements for derivatives and other off-balance sheet items; and
- the establishment of adequate internal controls and monitoring of derivative positions.

Note: The Supervisory Standard on Derivatives should be referred to in order to obtain a full overview of the control of derivatives.

	O/LO/ MNO /NO/NA *
<p><i>Essential criteria</i></p> <ol style="list-style-type: none"> 1. There are requirements in place that address restrictions in the use of derivatives and other off-balance sheet items. 2. Disclosure requirements should be established for derivatives and other off-balance sheet items. 3. The insurance supervisor requires insurers using derivatives to have in place an appropriate policy for their use, formulated and approved by the board of directors. This policy should be consistent with the company’s activities, its overall strategic investment policy and asset/liability management strategy, and its risk tolerance. It addresses the following main elements: <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, cashflow, 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; and • the delineation of lines of responsibility and a framework of 	

accountability for derivatives functions.

4. The insurance supervisor requires insurers to have in place comprehensive systems, forming part of their wider investment risk management systems, capable of identifying, measuring, controlling, and reporting (both internally and to the supervisor) the risks from derivatives activities. These systems ensure that the risks arising from all derivatives transactions undertaken by the insurer can be:
 - analysed and monitored individually and in aggregate; and
 - monitored and managed in an integrated manner with similar risks arising from non-derivatives activities so that exposures can be regularly assessed on a consolidated basis.
5. The insurance supervisor checks 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 that the functions responsible for measuring, monitoring, settling and controlling derivatives transactions are distinct from the front office functions.
6. The insurance supervisor requires that the board of directors of an insurer ensures that the company has the appropriate capability to verify pricing independently where the use of 'over-the-counter' derivatives is permitted under the company's policy.
7. The insurance supervisor checks 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.

Additional criteria

1. The insurance supervisor checks that the board of directors of an insurer reviews the adequacy of its derivatives policies and procedures at least annually in the light of the company's activities, its overall risk tolerance, and market conditions.
2. The insurance supervisor requires the board of directors of an insurer to satisfy themselves 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.

The above criteria of transparent and structured decision-making procedures of policy setting, execution, monitoring, reporting and control apply equally to financial transactions that are not derivatives transactions but which may be included in some jurisdictions as 'off-balance sheet' items.

<p>take into account the supervisory control over the reinsurer; and</p> <ul style="list-style-type: none"> - the amount of reliance placed on the insurance supervisor of the reinsurance business of a company which is incorporated in another jurisdiction. 	
	O/LO/ MNO /NO/NA *
<p><i>Essential criteria</i></p> <p>1. The insurance supervisor has the authority to review the reinsurance arrangements to ensure that they are adequate and that the claims held by insurers on their reinsurers are recoverable. This includes ensuring that:</p> <ul style="list-style-type: none"> • the reinsurance programme is appropriate to the level of capital of the insurer and the profile of the risks it underwrites; and • the reinsurers’ protection is secure, which may be ensured by such measures as obtaining collateral (including trust, letters of credit or funds withheld) or by relying on a system of direct supervision of reinsurers. <p><i>Additional criteria</i></p> <p>1. A reinsurer which acts also as a primary insurer is subject to insurance supervision.</p> <p>2. With regard to a reinsurer that does not act as a primary insurer (professional reinsurer) :</p> <ul style="list-style-type: none"> • The reinsurance supervisor has: <ul style="list-style-type: none"> - the necessary tools available for collecting, reviewing and analysing prudential reports and other information from reinsurers; - regular contact with the management of the reinsurer and a thorough understanding of its operations; and - the ability to monitor the activities of reinsurers and to intervene when necessary, including issuing cease and desist orders and instituting the winding up of the reinsurer. • The reinsurance supervisor is entitled to require reinsurance companies: <ul style="list-style-type: none"> - to define clearly the permissible activities they want to engage in; - to comply with requirements regarding ownership structure, management, operating plan, internal controls and financial position; - to have systems that accurately measure, monitor and adequately control market risks as well as to have a comprehensive risk 	

	O/LO/ MNO /NO/NA *
<p><i>Essential criteria</i></p> <ol style="list-style-type: none"> 1. The insurance supervisor requires that insurance entities (insurers and intermediaries) have key functionaries who are and remain fit and proper for their roles (i.e. possessing the necessary knowledge, skills and integrity for their positions), and has effective means to enforce this. 2. The insurance supervisor requires insurance entities to have policies in place on how to treat customers fairly. 3. The insurance supervisor has the capability to carry out on-site inspections to check observance of the required standards of market conduct where necessary. 4. The insurance supervisor sets policy and guidelines with regard to disclosure to the customer of relevant, meaningful and understandable information in a timely manner. The information to be disclosed covers the insurer, intermediary, product, risks, benefits, obligations, charges and estimated returns as appropriate. 5. The insurance supervisor requires insurance entities to seek information from their customers that might reasonably be expected, before giving advice or concluding a contract. 6. The insurance supervisor requires insurance entities to have in place procedures to deal with conflicts of interest. These might include disclosure, internal rules of confidentiality, or other appropriate procedures. 7. The insurance supervisor requires insurance entities to deal with complaints of customers effectively and fairly through a simple and equitable process. The process is well disclosed and easily accessible. 8. The insurance supervisor has procedures available to it to stop persons or entities doing unauthorised business quickly and effectively. <p><i>Additional criteria</i></p> <ol style="list-style-type: none"> 1. Intermediaries are directly or indirectly supervised. Regulation may cover issues like registration, knowledge and skills, codes of conduct, complaints procedures, professional indemnity insurance, continued professional education, etc. 2. If the insurance supervisor does not have the authority to resolve disputes, it encourages the setting up of an alternative dispute resolution mechanism to deal with complaints in an effective and affordable manner. It is advisable that this should be a neutral body that reports publicly on at least an annual basis. 	

<ul style="list-style-type: none"> - ensuring that external audits of insurance companies operating in the jurisdiction are acceptable; and - setting the standards for the establishment of technical provisions or policy and other liabilities to be included in the financial reports in the jurisdiction. <p>In so doing a distinction may be made:</p> <ul style="list-style-type: none"> - between the standards that apply to reports and calculations prepared for disclosure to policyholders and investors, and those prepared for the insurance supervisor; and - between the financial reports and calculations prepared for companies incorporated in the jurisdiction, and branch operations of companies incorporated in another jurisdiction. 	
	O/LO/ MNO /NO/NA *
<p><i>Essential criteria</i></p> <ol style="list-style-type: none"> 1. The insurance supervisor has the legal authority to require companies to submit information on both a solo and a consolidated basis, on their financial condition and performance. 2. The insurance supervisor has the authority to set the scope and frequency of reports requested and received from all companies licensed in the jurisdiction, including financial reports, statistical reports and actuarial reports. 3. The insurance supervisor has the authority to stipulate the principles and norms regarding accounting and consolidation techniques to be used for the purposes of reports provided to it for supervisory purposes. 4. The insurance supervisor requires insurance companies to utilise valuation rules that are consistent, realistic and prudent. 5. The insurance supervisor has the authority to issue principles for the establishment of technical provisions (policy liabilities) and other liabilities to be included in the financial reports in the jurisdiction. 6. The information has to be submitted on a timely and accurate basis. The insurance supervisor ascertains that the appropriate level of senior management is responsible for the accuracy of these returns, and can require that inaccurate information be amended. 7. The information includes details about off-balance sheet activities. 8. The insurance supervisor has a framework for on-going monitoring of the condition and performance of the companies. This requires that the insurance supervisor has an adequate information system. 9. The insurance supervisor requires that information is verified periodically through on-site examinations conducted by himself, external auditors or other qualified parties. 10. The insurance supervisor requires companies to produce annual audited 	

supervisors, include other jurisdictions in which the company operates; and

- request and receive any information from companies licensed in its jurisdiction, whether this information be specific to a company or be requested of all companies.

Note: The Supervisory Standard on On-site Inspections should be reviewed in order to obtain a comprehensive overview of on-site inspections.

	O/LO/ MNO /NO/NA *
<p><i>Essential criteria</i></p> <ol style="list-style-type: none"> 1. On-site inspection must have a legal basis giving the insurance supervisor wide-ranging powers to investigate insurance or reinsurance companies and to gather information he or she deems necessary. 2. Where insurance supervisors undertake a full-scale on-site inspection, this includes at least the activities listed below: <ul style="list-style-type: none"> • evaluation of the management and internal control system; • analysis of the company’s activities; • evaluation of the technical conduct of insurance business, e.g. evaluation of the organisation and the management of the company, analysis of the commercial policy of the company and evaluation of the reinsurance cover and its security; • analysis of the relationships with external entities; and • evaluation of the company’s financial strength. 3. The insurance supervisor has the authority to conduct on-site inspections on a limited basis, investigating only areas of specific concern. 4. The insurance supervisor should discuss findings with, and obtain feedback from, the insurance company. 5. Insurance supervisors should follow up to ensure that any required action has been taken. <p><i>Additional criteria</i></p> <ol style="list-style-type: none"> 1. The insurance supervisor has the authority to extend on-site inspections to brokers and companies that have capital links with, or that have accepted functions outsourced by, the supervised company. 2. Where insurance supervisors have the necessary powers to deal with the treatment of the customers, they may include the following points in the on-site inspection: <ul style="list-style-type: none"> • review of the information given to customers and checking of its sufficiency and adequacy; 	

<ul style="list-style-type: none"> - the power to direct a company to stop practices that are unsafe or unsound, or to take action to remedy an unsafe or unsound business practice; and - the option to invoke other sanctions on a company or its business operation in the jurisdiction, for example, by revoking the licence of a company or imposing remedial measures where a company violates the insurance laws of the jurisdiction. 	
	O/LO/ MNO /NO/NA *
<p><i>Essential criteria</i></p> <ol style="list-style-type: none"> 1. The insurance supervisor has the authority to refuse or revoke a licence if the organisational (or group) structure of the applicant or licensee hinders the effective supervision. 2. The insurance supervisor has the authority to act if it determines that the board of directors and senior management of the institution do not understand the underlying risks in their business or are not committed to, and accountable for, the control environment. The insurance supervisor has the legal authority, upon sufficient proof of an insurer's hazardous condition, to require changes in the composition of the board and/or senior management in order to satisfy these criteria. 3. The insurance supervisor has the legal authority to take remedial action against companies and impose sanctions. Remedial actions consistent with the severity of the situation are used to address such problems as failure to meet prudential requirements, violation of regulations, or situations where the interest of policyholders might be threatened. 4. The range of possible available sanctions is broad, ranging from penalties, fines, restricting the current activities of the company, withholding approval of new activities to revoking licences or imposing conservatorship and the forced transfer of portfolio. 5. The insurance supervisor ensures that remedial actions are taken in a timely manner. 6. The insurance supervisor addresses all significant remedial actions in a written document to the board of directors as well as to the company itself, and also requires that progress reports are submitted in writing. 7. Upon determining that a company is unsound, the insurance supervisor asks the ailing company to submit a recovery plan within a relatively short period, e.g. one month, which among other things should: <ul style="list-style-type: none"> • list the financial or administrative measures proposed by the company to improve its situation; and • quantify the expected effects of those measures and estimate the amount of time needed to obtain visible results. 8. Implementation of the plan can be accompanied by safeguards if the 	

<p>insurance supervisor does not trust the current management's capacity to carry out the recovery plan; for example:</p> <ul style="list-style-type: none"> • restrictions on the freedom to dispose of assets; • appointment of a temporary administrator in place of the current management; and/or • suspension of payments. <p>9. These safeguard measures can also be taken if a company refuses to produce the requested plan, if a proposed plan is not approved by the insurance supervisor or if a plan, once approved, is not implemented.</p> <p>10. The insurance supervisor asks the company to take, within a given period and under threat of penalties, all measures necessary to restore or reinforce its financial equilibrium, or remedy its practices.</p> <p>11. If an agreement improving the situation of the policyholders cannot be reached, the insurance supervisor pronounces a penalty proportionate to the defaults of the company. A public reprimand, a bar on carrying out certain operations, or the temporary suspension of a manager are examples of penalties that may be imposed when the continuation of the business is not in question.</p> <p>12. When no external support can be found, and the situation of the company can only keep deteriorating to the detriment of the policyholders, the insurance supervisor must put an immediate stop on the company writing new business, and consider forcing a transfer of portfolio, a withdrawal of all licences and liquidation.</p> <p><i>Additional criteria</i></p> <p>1. The insurance supervisor applies penalties and sanctions not only to the company, but, if and when necessary, also to management and/or the board of directors.</p>	
<p>*Note: O = observed; LO = largely observed; MNO = materially non-observed; NO = non-observed; NA = not applicable.</p>	

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<p>continuing effective prudential supervision – irrespective of any licensing requirement.</p> <ul style="list-style-type: none"> • In the case of the insurance subsidiaries of foreign parent companies, and insurance joint ventures in which one or more of the parent institutions is incorporated in a different jurisdiction, the law requires that these be subject to supervision of their capital adequacy/solvency in the host jurisdiction where they are incorporated. • In the case of foreign branches which are an integral part of an insurer incorporated in another jurisdiction then either: <ul style="list-style-type: none"> - the law provides for continuing direct supervision in the host jurisdiction; or - the insurance supervisor is able to demonstrate that they have a sound basis on which to believe that the insurance supervisor of the company in its home jurisdiction exercises continuing effective prudential supervision over the company as a whole, including its branch operations in foreign jurisdictions. • The insurance supervisor’s standard procedure for considering the application for a licence for: <ul style="list-style-type: none"> - a subsidiary of a foreign insurer; - a joint venture in which one or more of the parent institutions is an insurer incorporated in a different jurisdiction; or - a branch of a foreign insurer; <p>includes the need to consult the insurance supervisor of the parent insurer.</p> <p>2. Where the cross-border promotion of insurance contracts on a services basis is permitted, the insurance supervisor in the host jurisdiction has one (or a combination) of the following in place:</p> <ul style="list-style-type: none"> • a procedure whereby foreign insurers are required to notify the host supervisor of their intention to promote insurance contracts; • a special licensing procedure; or • specific safeguards to protect policyholders. • Where a notification or special licensing procedure is used, then it includes checks that the foreign insurer is subject to continuing effective prudential supervision in its home jurisdiction over its global activities. <p>3. The insurance law provides the host supervisor with the powers to be able to assess on a case by case basis, whether to license, continue to license or otherwise permit, an insurance subsidiary or branch of a foreign institution to operate in its jurisdiction. The process should be transparent.</p> <p>4. The insurance supervisor has the ability to refuse a licence for a foreign establishment in its jurisdiction, or impose additional conditions on a</p>	
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<p>licence, where it has material concerns that the foreign parent insurer is not subject to continuing effective supervision in its home jurisdiction. The process should be transparent.</p> <ol style="list-style-type: none"> 5. The insurance law provides the insurance supervisor with the power to prevent insurers established within its jurisdiction from promoting contracts of insurance through a branch or on a cross-border services basis in foreign jurisdictions where the insurer does not have the required financial capacity, or the necessary expertise, to manage the business prudently. 6. The home supervisors of insurers with overseas establishments require those insurers to maintain a sound and verifiable system of reporting from any foreign establishment to the head office. 7. Insurance supervisors exchange information, as necessary, on the operation in their jurisdictions of the insurance establishments of foreign insurers. <p><i>Additional criteria</i></p> <ol style="list-style-type: none"> 1. Home supervisors have the powers to order independent checks on data reported by an individual foreign establishment. 2. Insurance supervisors advise each other on a timely basis of any significant action they propose to take affecting the operations of a cross-border establishment. 3. Host supervisors accept on-site inspection of the branches of foreign insurers in their jurisdiction under the following conditions: <ul style="list-style-type: none"> • The home supervisor will inform the host supervisor of both commencement and conclusion of any examination of the host country branch. • The home supervisor and the host supervisor may communicate with each other on the initiative of either party. The home supervisor would share the necessary information with the host supervisor to a reasonable extent, subject to any statutory provisions. • The information obtained by the home supervisor in the course of inspections and meeting with the host supervisor shall be treated as confidential and shall be used solely for supervisory purposes, according to applicable legislation. 	
<p>*Note: O = observed; LO = largely observed; MNO = materially non-observed; NO = non-observed; NA = not applicable.</p>	

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obtained by the insurance supervisor may be shared.	
	O/LO/ MNO /NO/NA *
<p><i>Essential criteria</i></p> <ol style="list-style-type: none"> 1. The insurance supervisor is able to enter into an agreement or understanding with any other supervisor both in other jurisdictions and in other sectors of the industry (i.e. insurance, banking or securities) to share information or otherwise work together. 2. The insurance supervisor is permitted to share confidential information, or otherwise work together, with an insurance supervisor in another jurisdiction. This may be limited to insurance supervisors who have agreed, and are legally able, to treat the information as confidential. 3. The insurance supervisor is permitted to set out the types of information obtained by the insurance supervisor that may be shared and the basis on which it may be shared. 4. Information sharing arrangements allow for a two way flow of information, but strict reciprocity in terms of the level, format and detailed characteristics of the information exchanged is not demanded. <p><i>Additional criteria</i></p> <ol style="list-style-type: none"> 1. The insurance supervisor is informed about findings of investigations where the power to investigate fraud, money laundering, and other such activities rests with a body other than the insurance supervisor. 2. In the case of insurers with foreign establishments, the insurance supervisor of the parent insurer will take the host supervisors into their confidence as much as possible. 3. The recipient of information provided by an insurance supervisor in another jurisdiction undertakes, where possible, to consult with that insurance supervisor if they propose to take action on the evidence of the information received. 4. The insurance supervisor of the parent insurer with foreign establishments informs the host supervisors of those establishments of any material changes in supervision which may have a significant bearing on the operations of such establishments. 5. Where an insurance supervisor has doubts about the standard of host supervision in a particular jurisdiction and, as a consequence, is anticipating action that will affect the foreign establishments in the jurisdiction concerned, they will consult with the host supervisor in advance. 6. If a host supervisor identifies, or has reason to suspect, problems of a material nature in a foreign establishment, it takes the initiative to inform 	

<p>All insurance supervisors should be subject to professional secrecy constraints in respect of information obtained in the course of their activities, including during the conduct of on-site inspections.</p> <p>The insurance supervisor is required to hold confidential any information received from other supervisors, except where constrained by law or in situations where the insurance supervisor who provided the information provides authorisation for its release.</p> <p>Jurisdictions whose confidentiality requirements continue to constrain or prevent the sharing of information for supervisory purposes with insurance supervisors in other jurisdictions, and jurisdictions where information received from another insurance supervisor cannot be kept confidential, are urged to review their requirements.</p>	
	O/LO/ MNO /NO/NA *
<p><i>Essential criteria</i></p> <ol style="list-style-type: none"> 1. An appropriate confidentiality requirement that all insurance supervisors should be subject to professional secrecy constraints in respect of information obtained in the course of their activities is embodied in law (either in the insurance law or in other laws applying to the behaviour of the insurance supervisor). 2. ‘Gateways’ that allow the insurance supervisor to pass confidential information to other supervisors or law enforcement bodies are clearly set out. 3. Freedom of information provisions do not override the confidentiality requirements applying to the insurance supervisor in situations where confidentiality is necessary for sound regulatory practice or effective communication with other regulators. 4. Insurance supervisors are able to hold confidential any information received from an insurance supervisor in another jurisdiction with an expectation of confidentiality. 	
<p>*Note: O = observed; LO = largely observed; MNO = materially non-observed; NO = non-observed; NA = not applicable.</p>	

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