ISLE OF MAN
FINANCIAL SERVICES AUTHORITY

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2017 ROADMAP

FOR UPDATING THE ISLE OF MAN'S REGULATORY FRAMEWORK FOR INSURANCE BUSINESS

30 June 2017

The 2017 Roadmap is issued by the Isle of Man Financial Services Authority ("Authority"), the regulatory authority responsible for the supervision of financial services in the Isle of Man including, with particular relevance to this Roadmap, insurance business.

The Authority was established on 1 November 2015 by the transfer of functions of the Financial Supervision Commission and the Insurance and Pensions Authority. In this Roadmap reference to the "Authority" includes reference to the Insurance and Pensions Authority.

What is the Roadmap for?

The Roadmap was first issued in June 2013 to provide an overview of a significant update to the Isle of Man's insurance regulatory framework, consistent with the Authority's aims of ensuring that the Island has a proportionate and robust regime for the regulation and supervision of insurance business, as reflected in developments in relevant international standards.

The first issue explained why and where change was necessary and how the Authority would approach the task, working closely with relevant stakeholders. It also identified key elements of the project and the timing of main work streams and milestones.

At that time we advised that the Roadmap would be updated periodically during the project in order to keep stakeholders informed and updated Roadmaps have been issued annually in June 2014, June 2015 and June 2016. As the project end date draws nearer, the Authority feels that it is helpful to provide more frequent updates and so an additional update was provided in January 2017.

The purpose of this Roadmap is to provide regulated insurance entities and other relevant stakeholders with a further update on the progress and work undertaken over the past six months, and to look ahead to significant deliverables and milestones over the forthcoming year including the Authority's intentions in respect of the implementation of the new requirements.

Who is affected by it?

All existing and prospective authorised insurers, permit holders, insurance managers and general insurance intermediaries, including their key functionaries, will be directly affected in a way that is appropriate and proportionate to their business insofar as it is regulated by the Authority.

Other parties with an interest in the Isle of Man insurance sector (auditors, legal firms, banks, investment managers and other professional service providers) may also be affected as a consequence of those changes.

2017 ROADMAP

For updating the Isle of Man's regulatory framework for insurance business

1. Introduction

What is the background to this project?

The Isle of Man has a long established international insurance sector and is committed to maintaining appropriate standards of regulation for that sector.

International regulatory standards for insurance continue to develop in response to changes in the economic environment, moving increasingly towards risk sensitive capital frameworks, complemented by robust risk management and governance requirements, as well as transparency in respect of reporting to supervisory authorities and to the public. Such measures promote enhanced market discipline and enable comparability between firms.

The Authority recognises these benefits and considers developments to its own framework to be consistent with its aims of ensuring that the Island has a proportionate regime for the regulation and supervision of insurance business which is robust and which maintains the Island's reputation as a responsible jurisdiction.

International standards for effective insurance supervision have been undergoing significant change and the extent and pace of implementation of that change continues to pose a challenge to all jurisdictions, including the Isle of Man.

As noted in previous issues of the Roadmap, the International Association of Insurance Supervisors ("IAIS") substantially updated its Insurance Core Principles ("ICPs") in October 2011 in response to developments in insurance markets and supervision since they were last reviewed in 2003. One of the most significant developments over that period was the global economic crisis which started to manifest itself in 2007. As such, the ICPs emphasise the need for insurers and regulators to understand the nature and degree of risks assumed and provide for them appropriately, thus addressing financial stability concerns with the ultimate aim of protecting the interests of policyholders, beneficiaries and claimants.

The October 2011 update prompted a comprehensive review of the Isle of Man's existing regulatory framework, whereby the Authority carried out a gap analysis to compare the updated ICP provisions with the Island's current framework for the regulation and supervision of insurance business, including general insurance intermediation.

Given the degree to which standards have developed, it was unsurprising that the Isle of Man (like many jurisdictions) identified a number of areas where its framework would need to be amended to maintain its policy of a high level of observance with the ICPs.

The Authority considered these areas and concluded that a number of changes were appropriate, which would lead to the development and implementation of a significantly revised framework for insurance regulation and supervision. The Authority's stated aim was to achieve those changes in a way which was appropriate and proportionate for the Isle of Man's diverse insurance sector and this remains our objective.

Recognising the importance of consistent standards of supervision to internationally-active insurance groups, such as those of which many of the Island's life insurers are members, the Authority continues to work towards the development of a framework for the Island's insurance market, which is appropriately ICP-consistent and also capable of a positive Solvency II equivalence assessment for its life insurance businesses.

The IAIS continues to review and amend the 2011 ICPs and the Authority is monitoring such developments to ensure that they are reflected appropriately in the new framework.

2. Project objectives

What are the main project objectives?

The main objectives are to update the Isle of Man's insurance regulatory framework in line with relevant international standards in a way that is appropriate and proportionate for its diverse insurance sector.

The objectives of this project are to implement a framework for the regulation and supervision of insurers, insurance managers and general insurance intermediaries that -

- is consistent with the Authority's regulatory objectives, which are -
    - securing an appropriate degree of protection for policyholders, members of retirement benefits schemes and the customers of persons carrying on a regulated activity;
    - the maintenance of confidence in the Island's financial services, insurance and pensions industries through effective regulation, thereby supporting the Island's economy and its development as an international financial centre; and
    - the reduction of financial crime;
- will establish a high level of observance in respect of the ICPs, as assessed by international bodies such as the IAIS and the IMF;

- is capable of receiving a positive equivalence assessment under the Solvency II framework in respect of life insurance business;
- is appropriate and proportionate to the risks of the different parts of the insurance industry that operate in and from the Isle of Man; and
- allows the Isle of Man to be recognised as an up to date and responsible jurisdiction for insurance business, thus demonstrating its attractiveness both for existing regulated entities and new businesses that may wish to establish in, or transfer to, the Isle of Man.

3. Delivering the objectives

a) Our approach

How will the Authority ensure that changes will be appropriate and proportionate?

The Authority continues to work with the Isle of Man's insurance sector and other relevant stakeholders to ensure that changes made have due regard for the nature, size and complexity of the Island's existing and prospective businesses.

The ICPs apply, where relevant, to all classes of authorised insurers, insurance managers, permit holders and general insurance intermediaries.

The framework resulting from this project will therefore apply to some extent to all insurance entities regulated by the Authority, and all parts of the industry can expect to be subject to new requirements. However, the Authority is mindful of the varying nature and extent of risks inherent in different types of regulated entities and of the need to implement a proportionate regime. The new regulatory framework will therefore be tailored, where appropriate, to suit the specific characteristics of different parts of the market.

In order to achieve this degree of customisation, the Authority continues to work closely with the Isle of Man's relevant stakeholders as indicated in Section 3e). We continue to maintain a high level of engagement with industry as the date for completion of the project and implementation of the new framework draws nearer.

b) Project plan

How can I see what will happen and when?

The overall project is summarised at the end of this document and explained in the following paragraphs.

When the Roadmap was first issued in June 2013, the focus was on completion of the necessary legislation to implement the new framework. Over time and particularly within the last six months, more attention has been given to the actual implementation of the new requirements. Key dates are as follows:

Life insurers

- 30 June 2018 – implementation of risk-based capital;
- 30 June 2018 – implementation of amendments to regulatory reporting;
- 1 January 2019 – implementation of Group supervision;
- 1 January 2019 – implementation of Governance & ERM;
- 1 January 2019 – implementation of the Insurance (Conduct of Business) (Long term business) Code.

Non-life insurers

- 1 January 2019 – implementation of Governance & ERM;
- 1 January 2019 – implementation of Insurance (Conduct of Business) (Non long term business) Code;
- 30 June 2019 – implementation of risk-based capital;
- 30 June 2019 – implementation of amendments to regulatory reporting;
- 1 January 2020 – implementation of Group supervision.

General insurance intermediaries

- 1 October 2018 – regulations on general business and Conduct of Business Code.

The project summary diagram can be found in Section 5.

The summary sets out the key development work streams and milestones. For further information on these work streams see Section 3c) and for milestones see Section 3d).

c) Project plan work streams explained

What are the project's key elements?

The principal areas of change are as follows–

- *the development of a more sophisticated risk based capital and solvency regime;*
- *the introduction of a group supervision framework;*
- *additional conduct of business requirements;*
- *enhanced governance and enterprise risk management requirements;*
- *enhanced requirements in respect of general insurance intermediation;*
- *the introduction of public disclosure requirements where appropriate; and*
- *enhanced regulatory reporting.*

The following sections correspond to the key work streams identified in the project summary diagram (see the Schedule in Section 5) and provide an overview of the changes that the Authority believes are required in those areas.

Capital adequacy and solvency

Overview

A fundamental aspect of the new framework is a more fully articulated, risk-based capital and solvency regime. The concept of risk-based capital is not new to the Island's insurance sector, and is reflected within the provisions of the Corporate Governance Code of Practice for Regulated Insurance Entities ("CGC"). However, the new framework will update and expand significantly on this concept using more detailed implementation measures which will require insurers to calculate regulatory capital using a new risk-reflective solvency and capital model. This will be accompanied by enhanced governance provisions in respect of enterprise risk management for capital adequacy purposes, including own risk and solvency assessments.

In relation to the regulatory capital and solvency requirements, the Authority is developing standard capital and solvency model(s) ("SCSM") which will address the main risks to which insurers may be exposed.

Our work in this area focused initially on life insurers, however, since 2015 we have also been working on the development of non-life insurer model(s) having regard to the relatively wider variety, and often comparatively simpler risk profiles of Isle of Man non-life insurers, which include, for example, captives and other specialist insurers. All insurers will be required to comply with two levels of solvency: a minimum capital requirement ("MCR"), below which no insurer will be regarded as viable to operate effectively and a solvency capital requirement (“SCR”) above which, on a routine basis, supervisory intervention in relation to solvency requirements will not be expected. There may be a sliding scale of supervisory intervention between these points which the Authority anticipates explaining in more detail in a published regulatory policy in order to ensure a consistent approach and help inform stakeholders’ expectations.

Quantitative Impact Studies

The Quantitative Impact Studies (“QIS”) enable the Authority and individual insurers to assess the impact on the solvency balance sheet of the companies in question and each exercise serves as a basis for further refinement of the technical specification for subsequent exercises. One of the aims of all exercises is also to encourage insurers to prepare for the introduction of the SCSM and to identify areas where their internal processes, procedures and infrastructure might need to be enhanced, including in particular, data collection processes.

Quantitative Impact Studies – life insurers

The Authority’s first quantitative impact study (“QIS1”) in respect of the 2013 year end in relation to life insurers was launched in September 2014, with reporting required by the end of March 2015. This was followed by a second exercise for life insurers which completed in September 2015 and a third exercise which completed in December 2016. A fourth and final exercise was launched in April 2017 for completion by the end of June 2017. The regulations will then be consulted on and finalised and the framework will be implemented with effect from 30 June 2018.

Quantitative Impact Studies – non life insurers

The first QIS for non-life insurers (“QIS2”) was launched in October 2015. However, in response to feedback received from industry a decision was taken to end the exercise before the deadline of April 2016 in order to refine the assessment process. As such QIS3 for non-life insurers was launched in July 2016 with a deadline for submission of results of 31 December 2016. Preparations are now underway for QIS4 which will be launched mid-July for completion by the end of October.

A key issue in determining the capital framework for non-life insurers is whether an insurer is considered to be a “captive” insurer or a “commercial” insurer or perhaps a combination of both. For the purpose of QIS4, the Authority is proposing a range of confidence levels (1 in 10, 1 in 50, 1 in 100 and 1 in 200) to reflect the risk profiles of insurers. The Authority has provided industry with a methodology for determining which category each insurer belongs to.

The Authority has worked closely with the Isle of Man Captive Association ("IOMCA") and individual insurance managers throughout the QIS exercises and is grateful to industry for the engagement of those parties with this process. It is intended to conduct a further QIS (QIS5) early in 2018 and it is anticipated that this will enable an implementation date of 30 June 2019.

Group solvency – life insurers

A small number of life insurers belong to insurance groups of which the Authority expects to be group supervisor and the Authority has confirmed to the relevant insurers where this is the case. Those groups will be required to carry out a group solvency calculation which will be tested in a further QIS exercise (QIS4g) to be carried out by the insurers belonging to those groups only. The Authority will meet with relevant insurers during July to discuss QIS4g and to agree timescales. Our aim is to complete the exercise by the end of October.

In respect of implementation, it is deemed beneficial for there to be a lag between implementation of solvency at the individual insurer level and at the group level and so it is proposed that group solvency should come into force on 1 January 2019.

Group solvency – non-life insurers

As with life insurers, a fairly small number of non-life insurers belong to insurance groups of which the Authority expects to be group supervisor. Those groups will be required to carry out a group solvency calculation. A key factor in determining whether the Authority expects to be group supervisor or not is the outcome of the discussions currently underway on whether an insurer should be treated as a captive or commercial insurer (or possibly something in between). Where it is determined that an insurer's profile is such that it should be treated as a captive insurer and be subject to a lower confidence level in respect of its capital requirement, the Authority would not expect group supervision to apply.

Implementation at the group level will follow implementation of risk based capital at the individual insurer level and group requirements will come into force on 1 January 2020.

Total balance sheet approach

The framework for life and non-life insurers uses a total balance sheet approach in the valuation of assets and liabilities for solvency purposes. This recognises the interdependence between assets, liabilities, regulatory capital requirements and capital resources to ensure that risks are properly recognised and that the determination of available and required capital is based on consistent assumptions.

Assets and liabilities are valued on an economic basis such that an insurer's financial position is not obscured by hidden or inherent conservatism or optimism in the valuation. An economic value reflects the prospective valuation of the future cash flows of the asset or liability allowing for the inherent risk of those cash flows and the time value of money.

The valuation of technical provisions includes a risk margin to cover the inherent uncertainty of the insurer's obligations over the lifetime of the insurer's portfolio of insurance policies. For non-life companies we have permitted the use of accounting technical provisions, these being conservative interim measures, as accounting methodologies are likely to converge towards a "best estimate plus risk margin" approach over the next 5 – 10 years.

The above approach has been included in all QIS exercises.

Internal models

We recognise that some insurers operate sophisticated internal capital models which are fully embedded in their risk management systems and that, where this is the case, insurers may wish to use these models for the calculation of the regulatory capital requirement, on the basis that the internal model results are likely to be more reflective of the entity's specific risk than are the results of a standard model.

Some regulatory regimes allow the use of internal models which may be partial or full internal models, subject to stringent criteria set by the supervisor and subject to a detailed assessment by the supervisor and prior supervisory approval. A discussion paper on the use of internal models for life insurers (DP14-09) was issued in December 2014. We will consider consulting further on internal models once the SCSM framework has been substantially completed, however, at present no insurers have indicated a wish to use them.

Operational risk – life insurers

Operational risk was included in the third QIS exercise for the first time and is being further refined in QIS4.

Operational risk – non-life insurers

The Authority's view is that the Solvency II standard formula is more likely to be appropriate for non-life insurance business than for unit linked business and so this approach has been adopted in the QIS exercises.

The following summarises our work in the area of capital adequacy and solvency over the past six months and sets out the work planned for the next 12 months:

Developments since the January 2017 Roadmap

- *QIS4 was launched for life insurers.*
- *A methodology for determining the confidence levels to be used by non-life insurers for QIS4 was issued and the resultant data was collected.*
- *A review of life insurers' unit-linked matching processes was carried out.*
- *The Authority confirmed to all life insurers whether it anticipated being the group supervisor of the groups to which they belonged.*

Planned for period to 30 June 2018

- ***QIS4 exercise to be launched in July 2017 for non-life insurers.***
- ***Group QIS for life insurers to take place July – October 2017.***
- ***Regulations on valuation and solvency for life insurers to be issued for consultation in October 2017.***
- ***QIS5 exercise to be launched in March 2018 for non-life insurers.***
- ***Authority to confirm to non-life insurers whether it anticipates being the group supervisor of the groups to which they belong (1st half 2018).***

Implementation

As indicated above, the Authority's intention is to consult on and finalise all secondary legislation for the capital framework for life insurance by the end of 2017 and for the requirements to come into effect on 30 June 2018. All year ends and quarter ends from that date will therefore be subject to the new regime.

Group solvency for life insurers will be implemented after implementation at the level of the individual insurer on 1 January 2019.

Implementation for non-life insurers will be one year after life insurers, i.e. 30 June 2019.

Group solvency for non-life insurers will be implemented six months after implementation at the individual insurer level i.e. 1 January 2020.

Governance and Enterprise risk management for solvency purposes

Although the CGC is broadly consistent with the requirements of the relevant ICPs with the gaps being mainly in detail, there are a number of issues which need further consideration including potential actuarial requirements in respect of certain non-life businesses, capital adequacy considerations and the requirement for an enterprise risk management ("ERM") framework.

The new risk-based capital requirement will rely on insurers having an ERM framework that can adequately identify, assess, measure and monitor risks. The Authority will require insurers to evidence to it that they have such systems in place; that they understand thoroughly their risks; and that both economic and regulatory capital reflect the risks to which they are exposed. Account has to be taken of both current and future risk exposure and insurers will be expected to undertake periodic, forward-looking analyses of their ability to meet their obligations under various adverse economic and business scenarios to ensure that they maintain adequate capital and other financial resources to do this. Insurers are expected to assess this on both a going concern and winding-up basis using suitable and reliable methods.

This requirement is currently addressed at a relatively high level in the CGC. However, the new framework will require this to be evidenced by insurers to the Authority by way of an Own Risk and Solvency Assessment ("ORSA"), which must be provided on a periodic basis, possibly annually, to the Authority. The ORSA is an insurer's own assessment of its capital needs, based on all of the current and prospective risks it faces, determined by reference to the entirety of its risk processes and procedures and having regard to its business strategy and plan. As part of the ORSA, insurers will be required to carry out a continuity analysis whereby capital requirements over a longer period of time such as 3 – 5 years will also need to be considered.

Insurers of all classes will be required to submit an ORSA to the Authority and this will form an important part of the supervisory review process.

In order to reflect fully the need for proportionality, the ORSA requirement may be tailored as appropriate for life insurers and non-life insurers and in respect of the particular profiles of captives and other specialist insurers.

A consultation document on changes to the CGC and on ERM will be issued in August 2017. The consultation document will include a draft updated CGC as well as any additional guidance.

Planned for period to 30 June 2018

- ***Issue consultation document on the CGC and ERM - August 2017.***

Implementation

Our intention is to finalise the CGC, including ERM requirements, by the end of 2017 or early 2018. To give insurers sufficient time to prepare for the new requirements, particularly in the area of ERM, the new requirements will not come into operation until 1 January 2019.

Group-wide supervision

Financial stability has been a key consideration for regulation since the economic crisis and a fundamental aspect of this is expected to be the ability to supplement legal entity supervision with supervision at the group level. Group-wide supervisors are expected to be able to understand the business strategy, financial position, legal and regulatory position and the risk exposure of the group as a whole.

Whilst the Authority currently participates in group supervision arrangements and attends supervisory colleges where it is appropriate to do so, additional powers are required to enable it to act as group-wide supervisor for the limited number of insurers where the group headquarters, or the most significant insurance operations of the group, are based on the Island. These additional powers require amendments to both primary and secondary legislation.

A discussion document was issued at the end of April 2016 which set out our intended approach to group supervision, explained the circumstances in which we expect to act as the group-wide supervisor and indicated areas in which group supervision requirements would be applied. This supplements the information provided in consultations on the Insurance (Amendment) Bill 2017 which were issued in September 2015 and September 2016.

Insurers were also requested to provide information on their group structures to inform the Authority's considerations when determining the groups for which it might be group supervisor. In respect of life insurance, the Authority has confirmed to insurers whether or not it anticipates being the group supervisor for the groups to which they belong. This will be somewhat later for non-life insurers as such considerations are linked to the review on whether an insurer should be treated as a "captive" or a "commercial" insurer (see the earlier discussion on capital adequacy and solvency).

Discussions on group solvency are due to take place with relevant life insurers during July while a consultation paper on requirements at group level in the areas of governance, conduct, suitability and some aspects of group reporting is due to be issued later in the year (early October).

Planned for period to 30 June 2018

- ***Issue a consultation document on requirements at group level for all areas except group solvency (which will be addressed in the capital adequacy work stream) - October 2017.***

- ***Confirm the non-life insurance groups for which the Authority will be group supervisor (2018).***

Implementation

As discussed earlier, group solvency requirements for life insurers will come into operation on 1 January 2019 along with certain regulatory reporting requirements at group level. Other group supervision requirements will also come into effect on 1 January 2019.

We anticipate that all group requirements for non-life insurers will come into operation on 1 January 2020.

Public disclosure

The ICPs set out standards for public disclosure by insurers of relevant, comprehensive and adequate information on a timely basis to give policyholders and market participants a clear view of their business activities, performance and financial position. This is expected to enhance market discipline and understanding of the risks to which an insurer is exposed and the manner in which those risks are managed.

The IAIS recognises, however, that certain information is either proprietary or sensitive in nature and could impact the competitive position of the insurer if it were made public. The Authority will therefore ensure that, when establishing requirements in this area, careful consideration is given to achieving an acceptable balance between the need for transparency and the need to allow confidentiality in appropriate circumstances.

For example, ICP 20 specifically allows a supervisor to decide not to apply the public disclosure requirements to captives *“....provided there is no potential threat to the financial system, no public interest need for disclosure and no legitimately interested party is prevented from receiving information”*.

In the Isle of Man there are no existing requirements for the mandatory disclosure of an insurer’s business activities, including its financial position, other than to the Authority as regulator. In addressing this topic, the Authority recognises the importance of establishing the relevance of disclosures to stakeholders and considering the approach of other comparable jurisdictions.

Implementation

Much of the quantitative reporting required is dependent on the implementation of other work streams, notably the new capital framework. Taking this into account, it seems, therefore, appropriate for public disclosure requirements to be implemented after other developments such as the capital framework. Work has now started on a discussion paper, the purpose of which will be to obtain industry’s views on the requirements and to give industry the opportunity to highlight any areas of concern. Recognising the volume of consultations to the end of 2017 we propose to defer the issue of this until 2018.

Planned for period to June 2018

- ***Issue of a discussion paper on possible approaches to public disclosure (2018).***

Conduct of business

Matters in relation to conduct of business are typically discussed by the Authority with regulated entities as part of its existing supervisory process and may be reviewed as part of any on-site inspection in relation to general requirements contained for example in the CGC and, in respect of general insurance intermediaries, in Schedule 3 to the Insurance Intermediaries (General Business) Regulations 1999 (Common Trading Practices). Nevertheless, the Authority recognises that more detailed requirements are needed in this area in order to meet the standard put forward in the revised ICPs.

The ICPs expect the supervisory framework to require insurers to embed the fair treatment of customers into their business culture and to implement policies and procedures which reflect fair treatment as a key strategic objective. For example, insurers are expected to meet specific requirements in respect of -

- development and promotion of insurance products;
- disclosure of information about the insurance product to policyholders and prospective policyholders;
- disclosure to policyholders of their rights and obligations;
- claims procedures; and
- complaints procedures.

New requirements in relation to these matters are therefore required, with consideration being given to the requirements of the relevant ICP, developments in other jurisdictions and the specific nature of different parts of the Isle of Man's insurance sector.

Life insurers

A consultation paper addressing conduct of business issues for life insurers was issued in July 2015 following a discussion paper on the same topic which was issued the previous year. This excluded consideration of conflicts of interest issues in the sales process as it was decided that additional research on trends in other jurisdictions was required in this area. A consultation on that specific matter along with a summary response to the feedback received on the consultation was issued in July 2016.

Further discussions on our proposals have taken place with the Manx Insurance Authority ("MIA") in particular, and a final draft of the Insurance (Conduct of Business) (Long Term Business) Code 2017 with associated guidance was issued on 5 May 2017 for consultation, with responses due by 16 June 2017. The Authority has taken account of feedback received in its review of the proposed timescales for implementation, as detailed below.

Non-life insurers

A consultation paper for conduct of business requirements for non-life insurers was issued at the end of January 2017. It is anticipated that the final draft of the Conduct of Business Code for non-life insurers will be issued for consultation in October 2017.

Developments since the January 2017 Roadmap

- *Discussions with the MIA on matters arising from conduct of business consultations.*

- *Final draft Insurance (Conduct of Business) (Long Term Business) Code issued for consultation.*

- *Consultation paper issued on Conduct of Business Code for non-life insurers.*

Planned for period to June 2018

- ***Insurance (Conduct of Business) (Long Term Business) Code finalised.***

- ***Final draft Conduct of Business Code for non-life insurers to be issued for consultation.***

Implementation – life insurers

In the January 2017 Roadmap we reported that the Authority had agreed a phased implementation with industry, with most requirements coming into force on 1 January 2018 and the requirement for a "Key Information Document" which includes policyholder specific disclosures coming into operation on 1 January 2019.

Following a review of responses to the consultation on the Insurance (Conduct of Business) (Long Term Business) Code, **<u>the Authority has revised the proposed implementation date of that Code to 1 January 2019.</u>**

As a consequence of the revised implementation date, the requirement for a "Standard Key Information Document" has been removed.

Implementation – non-life insurers

Implementation of requirements for non-life insurers will also come into force on 1 January 2019.

General insurance intermediaries

A number of aspects of the updated ICPs deal with matters in relation to insurance intermediaries which are either not currently addressed by the Isle of Man's existing legislation, or are only addressed at a very high level. Accordingly, a number of new requirements are expected across a range of areas, such as the fair treatment of customers, disclosure to customers, corporate governance and the treatment of client monies.

A discussion paper was issued in October 2016 setting out possible changes. This will be followed by a consultation paper, which will address matters in relation to general business and conduct of business. We anticipate issuing this in August 2017.

Further consultation papers in relation to exemptions for ancillary business and corporate governance will be issued towards the end of the first and second quarters of 2018 respectively. There will be a final consultation on all new legislation during the third quarter.

Planned for period to 30 June 2018

- ***Consultation paper in respect of general business and conduct of business to be issued.***
- ***Consultation paper on exemptions for ancillary business to be issued.***
- ***Consultation paper on corporate governance to be issued.***

Implementation

The Authority recognises the wide scope of potential changes being proposed for the intermediary framework and wishes to give industry sufficient time to prepare for those changes. As such we plan for the regulations in respect of general business and the Conduct of Business Code to come into effect from 1 October 2018, with transitional provisions included for certain requirements. Governance requirements will follow and we anticipate that they will come into effect from 1 April 2019. The above is of course subject to the consultations still to be carried out.

Regulatory reporting

Regulatory reporting requirements are currently being reviewed to identify any changes that may be required as a result of the new framework. It is likely that this will lead to replacement or amended Insurance Regulations which will include any new or amended quantitative and qualitative reporting requirements. These will need to come into force at the same time as the valuation and solvency regulations and so will be consulted on late 2017/early 2018 for life insurers and during the second half of 2018 for non-life insurers.

As previously reported, the Authority is developing a new IT system which will enable insurers to submit regulatory returns via a secure connection over the internet.

This system will enable the Authority to validate and store information received in such a way that it can be analysed more efficiently, so leading to more effective supervision through the timely identification of adverse variances and other potential indicators of risk. It is envisaged that the system will also facilitate the collation of aggregated statistical analyses for the benefit of industry, government and the wider public.

The combination of the qualitative and quantitative reporting along-side the desk top review and monitoring processes of regulated entities will assist the Authority in its consideration of risk posed by individual firms and the resultant application of risk based supervision, ensuring supervisory attention is focused towards those entities or wider market issues that pose a greater threat to the regulatory objectives of the Authority.

Other areas of change

In the Roadmap issued in January 2017, we indicated that there were a number of other areas where less extensive changes were anticipated. It remains our view that this is the case for the following areas:

Transfer of business for non-life insurers

Schedule 2 to the Insurance Act sets out provisions for portfolio transfer for life insurance business and enables provisions to be applied to non-life insurance business by regulation with any necessary amendments. The Authority is currently consulting with IOMCA on current business practices and needs in this area in order to determine the best approach.

Additional enforcement powers and published regulatory approach to enforcement

Although the Authority currently has at its disposal a range of general powers of enforcement, more specific provisions have been proposed in certain areas as part of the update to the Insurance Act 2008, including the power to impose prohibitions and to petition the Court to appoint a receiver or business manager.

An Authority-wide initiative is planned which is anticipated to include the publication of the Authority's overall approach to enforcement and how the Authority assesses the seriousness of any failings identified and determines an appropriate strength of response.

Winding up and exit from market

A new provision will be added to the Insurance Act 2008 by means of the Insurance (Amendment) Bill 2017, which enables the Authority to require insurers to take the necessary steps to ensure that any insurance business carried on by the insurer is discontinued and wound up prior to surrender of authorisation. There is a similar requirement for insurance managers and insurance intermediaries.

The policyholder compensation scheme for life insurance is currently being reviewed to identify any changes required to reflect the new capital regime.

Suitability and licensing

The Authority is currently carrying out a process review to streamline processes across the organisation and make them consistent where appropriate. This is very relevant to the work that has already been carried out to identify changes that might be required in the areas of suitability of persons and licensing which has been fed into, and will be progressed as part of, that review.

Changes to primary legislation

An important element of the work to update the framework has been to define those areas which require primary legislative change, either to introduce or amend existing powers and functions of the Authority under the Insurance Act 2008 or to provide for the enabling powers to introduce the necessary changes via secondary legislation.

The Insurance (Amendment) Bill 2017 ("Bill") was consulted on twice, in 2015 and 2016, and the legislative process through the House of Keys and the Legislative Council completed at the end of March 2017.

It is anticipated that Royal Assent will be granted just before or just after the summer recess of Tynwald. Sections of the Bill will be implemented on a phased basis in line with the implementation of the relevant secondary legislation.

d) Project plan milestones explained

Why set these project timescales in particular?

The project timescales are those currently considered to be appropriate for the nature and scope of work to be carried out, but may be subject to change as necessary depending on circumstances over the course of the project as it progresses.

The Authority's focus for the remainder of 2017 will be to finalise secondary legislation in the key areas of risk based capital (life insurance), regulatory reporting, conduct of business and corporate governance and ERM.

The Roadmap of January 2017 set out the Authority's priorities for 2017; the following table shows the progress and current status of those items due for completion by 30 June 2017 as follows –

• ***Full instructions for the QIS4 exercise and results templates to be issued for completion by life insurers, with reporting required during the period up to the end of June 2017.***	Complete
• ***Full instructions for the QIS4g exercise and results templates to be issued for completion by life insurers belonging to groups of which the Authority is Group Supervisor, with reporting required during the period up to the end of August 2017.***	April – now July 2017
• ***Consultation paper to be issued on Intermediaries.***	April - now August 2017
• ***Consultation paper to be issued on Conduct of Business Code for life insurers.***	Complete
• ***Full instructions for the QIS4 exercise and results templates to be issued for completion by non-life insurers, with reporting required during August 2017.***	May - now mid July 2017
• ***Proposals on appropriate confidence levels to be used by non-life insurers for capital requirements.***	Complete
• ***Consultation paper to be issued on Governance and ERM (including the Code itself).***	June - now August 2017
• ***Consultation paper to be issued on group supervision requirements (excluding group solvency).***	June – now October 2017
• ***Discussion paper to be issued on public disclosure.***	H1 2017 - deferred

Our priorities for the next 12 months are as follows:

Life Insurers

2017

• ***Finalise Insurance (Conduct of Business) (Long Term Insurance) Code***	asap
• ***Group solvency QIS***	July – October
• ***Consultation paper to be issued on amended Corporate Governance Code of Practice for Regulated Insurance Entities***	End August
• ***Consultation paper to be issued on requirements for group supervision (except group solvency)***	Early October
• ***Consultation paper to be issued on regulations for risk based capital (life insurance).***	Early October
• ***Consultation paper to be issued on replacement / amended Insurance Regulations.***	End November

2018

• ***Consultation paper to be issued on regulations for group solvency (life insurance).***	March/April
• ***Consultation on secondary legislation for group supervision (excluding group solvency).***	May/June

Non-life insurers

2017

• ***Issue QIS4 for non-life insurers.***	Mid July
• ***Consultation on amended Corporate Governance Code of Practice for Regulated Insurance Entities***	End August
• ***Consultation on Conduct of Business Code for non-life insurers.***	Early October

2018

• ***Full instructions for the QIS5 exercise and results templates to be issued for completion by non-life insurers.***	March 2018

Intermediaries

• ***Consultation paper in respect of general business and conduct of business to be issued.***	August 2017
• ***Consultation paper on exemptions for ancillary business to be issued.***	February/March 2018
• ***Consultation paper on corporate governance to be issued.***	May/June 2018

e) Industry participation

How can industry have its say?

The Authority continues to work closely with the Island's insurance sector and other interested parties throughout the project by way of detailed pre consultation discussions, quantitative impact studies, formal consultations, update communications and such other means as appear appropriate during the course of the project.

Engagement from the Isle of Man's insurance industry and other relevant stakeholders is vital to the successful implementation of the new framework and the Authority is committed to building constructive relationships with industry bodies across the sector as well as with individual regulated entities and other organisations such as professional firms and bodies.

In addition to the more general briefings provided from time to time at relevant events, over the past year the Authority has provided updates at the periodic meetings of the MIA and IOMCA and at the Insurance Institute's Regulatory Update. It has engaged with regulated entities specifically on the QIS exercises for non-life insurers, on the methodologies for calculating the capital requirement for operational risk for life insurers and on conduct of business proposals for life insurers. It is expected that the level of engagement will continue and accelerate as we work towards finalising all legislation and discussing arrangements for implementation.

There continues to be a significant amount of consultation during 2017, however, most of the proposals should already be familiar to relevant stakeholders and so the Authority anticipates that there will be sufficient opportunity for proposals to be properly considered and commented on. Notwithstanding this, the Authority will keep this under review and be as responsive as possible to any changing circumstances.

This Roadmap will be further updated at the appropriate time to provide regulated entities and other interested parties with current information about the project.

4. Contact

Where can questions or comments on the June 2017 Roadmap be directed?

Questions or comments in relation to the June 2017 Roadmap may be directed to the Authority.

The objective of the June 2017 Roadmap is to provide an update on the Authority's plans in respect of developing an updated regulatory framework and it is not a consultative document per se. Nevertheless, the Authority is happy to receive any comments or questions from interested parties. These should be directed in the first instance to:

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5. Schedule (project summary diagram)