



ISLE OF MAN  
FINANCIAL SERVICES AUTHORITY

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# GROUP SUPERVISION

## DISCUSSION PAPER AND REQUEST FOR INFORMATION DP16-02

Issue Date: 29 April 2016  
Closing Date: 10 June 2016

***This Discussion Paper and Request for Information is issued by the Isle of Man Financial Services Authority (“Authority”) the regulatory authority responsible for the regulation and supervision of all financial services business carried out in or from the Isle of Man.***

### ***What is it for?***

In June 2013 the former Insurance and Pensions Authority published its ‘Roadmap for updating the Isle of Man’s regulatory framework for insurance business’ and through that document set out its objective to establish a project to implement a framework for the regulation and supervision of insurers, insurance managers and general insurance intermediaries that will establish a high level of observance in respect of the updated and revised Insurance Core Principles issued by the International Association of Insurance Supervisors, and remain appropriate and proportionate to the risks of the different parts of the insurance industry that operate in and from the Isle of Man. The Roadmap was updated and reissued in June 2014 and 2015 to reflect progress made.

This continues to be the objective of the Authority.

One element of the project to update the regulatory framework for insurance business is the creation of a framework whereby the Authority may act as the supervisor of an insurance group where it is appropriate for it to do so and one of the purposes of this paper is to set out the Authority’s proposals for such a framework.

This document comprises two parts.

The first part (sections 1 – 10) is a discussion paper which sets out the Authority’s proposed framework for group supervision and the implications of this for authorised insurers, drawing on standards established within the Insurance Core Principles and developments in other jurisdictions.

The second part (section 11) is a request for information which should be considered in the context of the matters set out in the discussion paper.

The objective of the discussion paper and the request for information is to enable the Authority to ensure that the proposed framework for group supervision is fit for purpose.

### ***Who is required to respond to the discussion paper and request for information?***

*All authorised insurers are requested to read this discussion paper and to respond to the request for information in Section 11 of this document.*

The content will be of most direct interest to the boards and senior management of existing and prospective insurance companies, that belong to insurance groups which are based on the Island or where the most significant insurance operation of the group is on Island.

However, Section 11 of the paper requires information from all authorised insurers and Sections 1 – 10 provide the context for this.

Other parties with an interest in the Isle of Man insurance sector, including the legal and auditing professions may also find this discussion paper and the issues raised of interest.

The closing date for any comments on the discussion points raised in this paper and for submission of the information required by the Authority in section 11 is **10 June 2016**.

Please send the above preferably by email to:

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## GLOSSARY OF TERMS

Term	Meaning in this document
<b>Act</b>	Insurance Act 2008
<b>Authorised insurer</b>	An insurer authorised under section 8 of the Insurance Act 2008 to carry on an insurance business.
<b>Authority</b>	The Isle of Man Financial Services Authority
<b>Bill</b>	Insurance (Amendment) Bill
<b>Equivalent jurisdiction</b>	A jurisdiction that has supervisory standards that the Authority determines to be equivalent to those established by or under the Insurance Act 2008 for the purpose of group supervision.
<b>EU</b>	European Union
<b>FSA08</b>	Financial Services Act 2008
<b>FSC</b>	The former Financial Supervision Commission
<b>IPA</b>	The former Insurance and Pensions Authority
<b>IAIS</b>	International Association of Insurance Supervisors
<b>ICPs</b>	Insurance Core Principles (of the IAIS)
<b>Roadmap</b>	Roadmap for updating the Isle of Man's regulatory framework for insurance business

## 1. INTRODUCTION AND BACKGROUND

1. International bodies such as the G20, the Financial Stability Board and the IAIS are concerned with financial stability. Indeed, the stated mission of the IAIS is “to promote effective and globally consistent regulation and supervision of the insurance industry in order to develop and maintain a fair, safe and stable insurance market for the benefit and protection of policyholders and to contribute to global financial stability”.
2. A key component of financial stability is considered to be the ability to supplement legal entity supervision with supervision at the group level and this is one of the key themes of the ICPs as updated in 2011. The concept is that at least one supervisor must be able to understand the business strategy, financial position, legal and regulatory position and the risk exposure of an insurance group as a whole. That supervisor should also be able to assess the quality of the group’s governance framework and risk management and internal controls. This should enable supervisors to recognise potential areas of concern across borders and sectors and take appropriate action promptly.
3. As well as there being a specific ICP for group supervision, aspects of group supervision also run through many other ICPs and so the absence of a suitably developed framework in this area may impact effectiveness and observance in a number of areas.
4. There are some clear examples of insurance groups which are based on the Island and where the implementation of a group supervision framework would be beneficial, enhancing the Authority’s understanding of the group risks and extending the ability to impose requirements at the group level. The Authority’s challenge is to address the expectations of the ICPs while also taking into account the nature of insurers on the Island so that the regime is applied proportionately.
5. Whilst the Authority participates in group supervision arrangements and attends supervisory colleges at the invitation of another supervisor, it does not currently act as Group Supervisor and does not have the power to do so. This will be addressed when the Bill is enacted.
6. As indicated in the Roadmap, the Authority’s intention is that the Island’s insurance regulatory framework should be capable of a positive Solvency II equivalence assessment for long term insurance. A group supervision framework whereby the Authority has the power to act as Group Supervisor and implement requirements at insurance group level is also necessary for this purpose.

## Findings from IPA gap analysis of group supervision requirements

7. Whilst the Authority participates in group supervision arrangements and attends supervisory colleges where it is appropriate to do so, it does not currently have the legal power to act as a Group Supervisor. Consequently, when the IPA carried out its own gap analysis against the updated ICP requirements, it identified gaps in this area. This was particularly as the focus of the group supervision ICPs is on the powers of the supervisor as the Group Supervisor, rather than on the power to participate in group supervision where another supervisor is the Group Supervisor.
8. Although certain ICPs (ICP23 and ICP25) focus primarily on group supervision, the basic premise is that all ICPs apply to groups as well as to legal entities unless this is clearly not feasible. As such, the lack of a group supervision regime may impact the Authority's level of observance across a range of ICPs and not just those which deal directly with group supervision.

## The scope and purpose of this discussion paper

9. The Bill was issued for consultation on 30 September 2015 and we anticipate issuing an updated version (amended as a result of consultation feedback) in June 2016 for further consultation. The Bill addresses the pre-requisites for a group supervision framework i.e. it sets out the necessary legal powers to enable the Authority to act as a Group Supervisor and to make regulations and issue guidance which apply to insurance groups of which the Authority is the Group Supervisor. This paper reviews the provisions of the Bill relating to group supervision, including any changes being proposed in the second consultation, and the anticipated implications of the provisions in the Bill for authorised insurers.
10. This paper also provides an overview of the requirements that are expected to apply to an insurance group where the Authority has determined that it is the Group Supervisor and points out that this will also lead to a further development of the Authority's supervisory approach.

## 2. OVERVIEW OF THE FRAMEWORK FOR GROUP SUPERVISION

11. As previously noted, although in many respects group supervision may seem of more relevance to larger jurisdictions, the ICP requirements apply to all jurisdictions and the concept of group supervision is consistent with the Authority's regulatory objectives which include policyholder protection and the maintenance of confidence in the Island's insurance industry. The challenge is to develop a framework that observes the ICPs but is also proportionate to the Island's insurance sector.
12. The Bill defines an insurance group and gives the Authority the power to determine whether it is appropriate for it to be the Group Supervisor of an insurance group with reference to certain criteria (see section (4) below). The Authority is able to include or exclude members of a group from the scope of group supervision and to withdraw as Group Supervisor if it is appropriate for it to do so with reference to certain specified circumstances (see section (6) below).
13. The functions of the Authority as Group Supervisor are set out in the Bill and include the following:
  - the supervisory review and assessment of the financial situation of the insurance group;
  - the supervisory review and assessment of the system of governance of the insurance group; and
  - the coordination of communication between supervisors across the insurance group.

Although the Bill sets out all potential functions of the Group Supervisor, account will be taken of the nature, scale and complexity of each insurance group in determining the precise nature of the Authority's role as Group Supervisor.

14. Where the Authority determines that it is the Group Supervisor, the authorised insurer (or the largest authorised insurer should there be more than one) will be determined to be the "designated insurer" and will act as the Authority's point of contact for all group supervision matters.
15. The Bill gives the Authority the power to make regulations and to issue guidance in respect of group supervision. One of the functions of the Authority as Group Supervisor included in the Bill is that of coordinating any enforcement action that may be taken against insurance groups or their members. Where enforcement action is taken in respect of breaches of the Act or group supervision regulations, this would normally be effected by a requirement being imposed on the designated insurer using the relevant power under the Act.



### 3. DEFINING AN INSURANCE GROUP

16. The Authority proposes defining an insurance group as follows:

“insurance group” means,

- a) a group of companies that consists of an insurer, any other company which is its holding company or subsidiary, any other subsidiary of that holding company and any company in which the holding company, the insurer or any such subsidiary holds a participation; or
- b) a group of companies that includes an insurer and is based on the establishment contractually or otherwise of strong and sustainable financial relationships or are otherwise linked through significant influence or control,

and the primary function of the group is insurance.

In this definition –

“participation” means the holding, directly or indirectly, of 20% or more of the voting rights or capital of a company.

17. The above definition is what we currently anticipate will replace the definitions of “group” and “insurance group” in the draft Bill issued on 30 September. We believe that the above is a clearer definition and corresponds more closely to the requirements of the ICPs and Solvency II. ICP23 requires account to be taken of relationships such as common directors and material transactions between companies; Solvency II requires consideration to be given to companies in which a participation is held.

18. The proposed amended definition means that the group as a whole may be an insurance group or an insurance group may exist as a subset of a wider group, for example within a banking or securities led financial conglomerate or a non-financial group.

19. In respect of long term insurance business, most authorised insurers belong to insurance groups where the group in its entirety is an insurance group or the insurance group is a subset of a financial conglomerate, though in nearly all cases a supervisor other than the Authority is expected to be, or is, the Group Supervisor.

20. This is not the case for non long term insurers where it is expected that many insurers will belong to insurance groups which are subsets of wider non financial groups and where the Authority is the only supervisor. In those cases there are a number of criteria that the Authority will consider to determine whether it is appropriate for it to be the Group Supervisor (see section 4 below).

#### **4. DETERMINATION OF THE AUTHORITY AS GROUP SUPERVISOR**

21. The Bill includes a new power to enable the Authority to determine whether it is appropriate for it to be Group Supervisor with reference to a number of criteria as set out below:

- a. Whether the insurance group is headed by an authorised insurer;
- b. Where the insurance group is not headed by an authorised insurer whether the insurance group is headed by a holding company which is incorporated in the Island;
- c. Where the insurance group is headed by a holding company which is not incorporated in the Island, whether the Authority is satisfied that –
  - i. the insurance group is directed and managed from the Island; or
  - ii. the insurer in the insurance group with the largest balance sheet total is an authorised insurer.

There is provision for the Authority to take other relevant matters into consideration and the Authority will also consider the nature of the insurance business involved and the risks it poses to third party policyholders.

The head of the insurance group in this context is the legal entity that controls the insurance group.

22. Where the insurance group includes other insurers, the Authority will liaise with the relevant supervisor(s) as part of its considerations in determining whether it should be the Group Supervisor.

#### **5. DESIGNATED INSURER AND THE HEAD OF THE INSURANCE GROUP**

23. Although the head of the group may be an authorised insurer, very often it will be an unregulated holding company over which the Authority has no direct power. The Authority will, therefore, identify an authorised insurer that is a member of the insurance group to be the “designated insurer”.

24. The designated insurer will be the Authority’s point of contact and will be responsible for facilitating and maintaining compliance by the group with the requirements of the Act and provisions made under it. Enforcement of requirements in respect of the insurance group will be via the designated insurer. The Authority has a range of powers at its disposal and will consider which is most appropriate on a case by case basis.

## **6. SCOPE OF GROUP SUPERVISION**

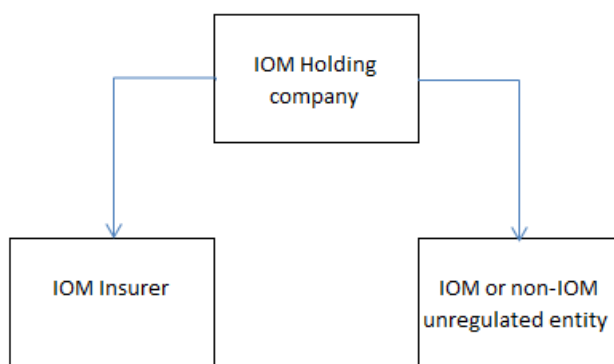
25. Where the Authority has determined that it is the Group Supervisor, it will review the composition of the group and consider the relevance of each entity that belongs to the group in respect of its operation and the risk it could pose to the insurers and the group as a whole. It is expected that the scope will include as a minimum the head of the insurance group and its subsidiaries, with consideration also being given to companies in which a participation is held and which are linked in other ways through significant influence or control or where strong and sustainable financial relationships have been established.
26. The Authority will have the power to determine that certain members of the group should be excluded from the scope of group supervision and also that certain members should be included.
27. The exclusion of a member from an insurance group may arise where the financial operations of the company have a negligible impact on the group or where the inclusion of a member would be otherwise inappropriate. Reference will be made to the Authority's regulatory objectives and particularly the objective of policyholder protection. A member may also be excluded from an insurance group if it is situated in a jurisdiction where legislation impedes the exchange of information with the Authority.
28. Members may be included in a group where they have previously been excluded but their operations have changed such that they subsequently have a material impact on the group.
29. The Authority may withdraw as Group Supervisor where it is considered appropriate for it to do so i.e. where it is more appropriate for a supervisor in another equivalent jurisdiction to carry out this role or where there has been a change in the structure of the insurance group such that the insurance group no longer exists.

## 7. IMPLICATIONS FOR AUTHORISED INSURERS

30. The following structures are examples of group structures where the Authority expects to be the Group Supervisor

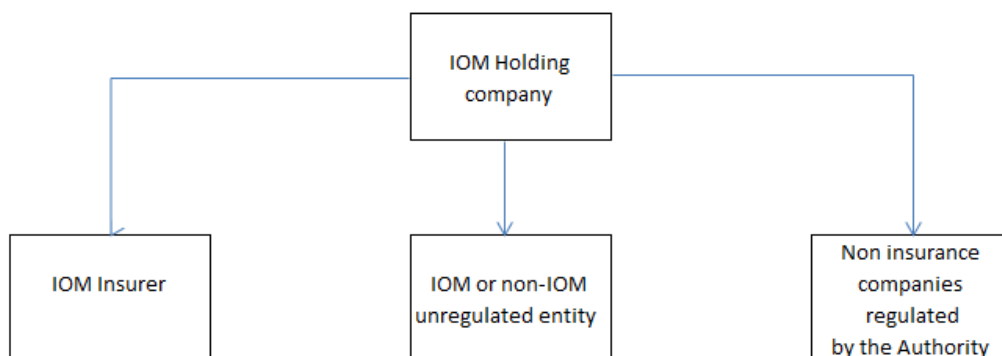
***Scenario 1 – Parent is an IOM holding company and the only regulated entity in the group is an IOM insurer; insurance is the primary function of the group as a whole:***

31. In this scenario, the Authority is the only supervisor in the group and would expect to be Group Supervisor. The scope of the group would include the holding company as the head of the group as well as any unregulated entities, unless it was considered that the financial operations and/or risks posed by those entities to the rest of the group were negligible.



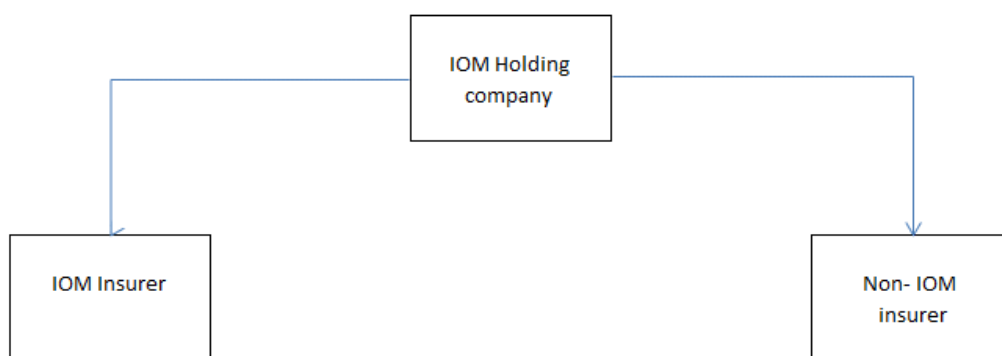
***Scenario 2 – Parent is an IOM holding company, with an authorised insurer as well as other non-insurance entities regulated by the Authority; insurance is the primary function of the group as a whole:***

32. This scenario is similar to the above scenario but also includes another entity which is regulated by the Authority but is not an insurer. This group is, therefore, an “insurance-led financial conglomerate” as insurance is the predominant activity. As such, the group would be treated as an insurance group, including the other entity regulated by the Authority, with the Authority as Group Supervisor.



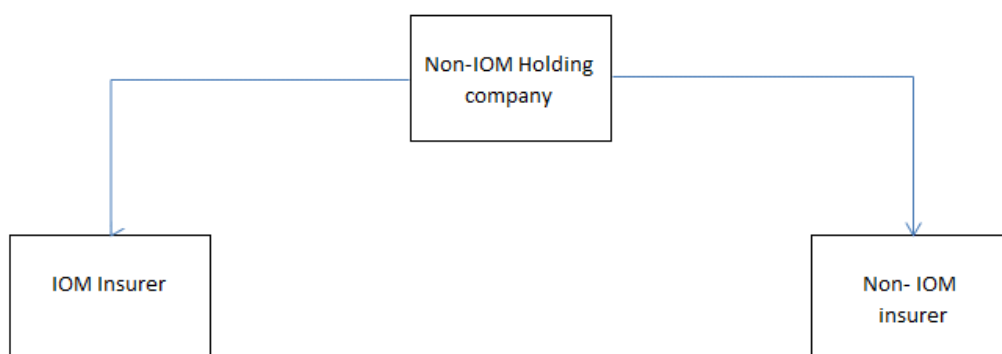
***Scenario 3 – Parent is an IOM holding company, with IOM and non-IOM insurers; the predominant activity is insurance.***

33. The Authority would normally expect to be Group Supervisor if the holding company and head of the group are on Island and there is also an authorised insurer. Should the non-IOM insurer be a much more significant operation than that on Island, the Authority will liaise with the relevant supervisor to reach agreement as to which supervisor should carry out this role.



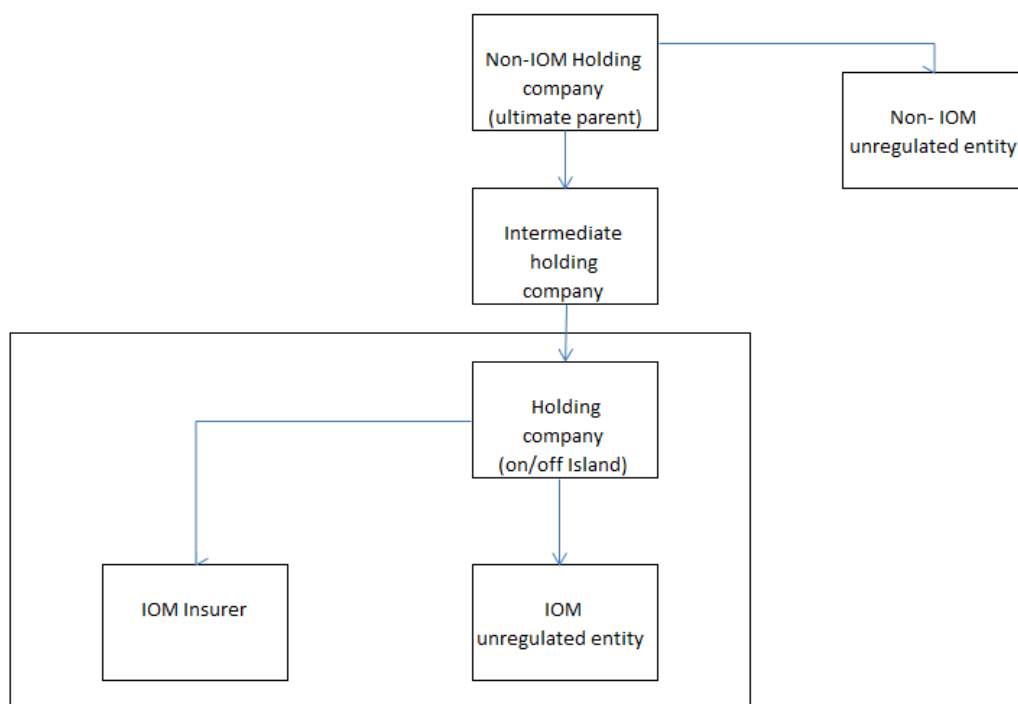
***Scenario 4 – Parent is a non-IOM holding company, with IOM and non-IOM insurers, the insurer with the largest balance sheet or main insurance operation being in the IOM***

34. The Authority will liaise with the relevant supervisor of the non-IOM insurer and agree who should be the Group Supervisor. The Authority would expect to be Group Supervisor if the largest insurer was located on Island .



**Scenario 5 – Parent is a non-IOM holding company, with an intermediate holding company, an IOM insurer and other unregulated entities on and off Island; the primary function of the group as a whole is not insurance:**

35. In this scenario, the authorised insurer is the only insurer in the group and the group engages in a number of other activities. The insurance group is therefore a subset of companies within the wider group and the Authority would be Group Supervisor of that subset. The wider group may be an industrial or commercial group or could also be a financial group such as a banking group.



## 8. SOLVENCY II

36. Where there is a group with an EU insurer, Solvency II requires the Group Supervisor to be from a Solvency II jurisdiction or from a jurisdiction which is “Solvency II equivalent”. The European Commission may grant a country Solvency II equivalence status in the areas of solvency, group supervision and reinsurance. Solvency II equivalence for group supervision means that the supervisor of an EU insurer would have to recognise a supervisor from a non-EU country as the Group Supervisor.

37. The Authority’s approach will be to consider insurance groups and to determine whether it should be Group Supervisor under its own framework for group supervision. If it determines that it should be the Group Supervisor and there is an EU insurer in the group,

notwithstanding the fact that the Island is not currently Solvency II equivalent, the Authority will liaise with the supervisor of that insurer to determine how group supervision may be applied. The outcome could be such that the Authority is Group Supervisor but that the supervisor of the EU insurer also carries out the function of Group Supervisor for the group of companies based in the EU.

## **9. REQUIREMENTS TO BE APPLIED TO INSURANCE GROUPS**

38. Many ICPs and standards apply to the supervision of insurers at the legal entity and the insurance group level. In some cases the requirements are the same but extended to the group level (e.g. suitability) while other requirements are new requirements specifically related to the insurance group (e.g. group solvency).

39. Requirements fall into the following key areas:

- group-wide solvency
- group-wide governance
- group-wide conduct
- public disclosure at group level
- supervisory review and reporting at group level

40. The following sections summarise these requirements, however, the ICPs recognise that not all requirements will apply in every instance and that the supervisory approach to entities/activities within the insurance group varies depending on factors such as the types of business, legal status and/or nature, scale and complexity of risks. Guidance notes to ICP23 state that “although an insurance group as a whole should be subject to group-wide supervision, not all quantitative and qualitative supervisory requirements applied to an insurance legal entity should necessarily be applied to other entities within the group, to the insurance group as a whole, or to a sub-group collectively”.

### **Group-wide solvency**

41. Group-wide solvency requirements are within ICP 14 (Valuation), ICP15 (Investment), ICP16 (ERM for solvency purposes) and ICP17 (Capital Adequacy).

42. ICP14 (Valuation) sets out the way in which assets and liabilities must be valued for the purpose of assessing capital adequacy for regulatory purposes at legal entity and group level.

43. ICP15 (Investment) requires investment risk exposures to be monitored for the group as a whole and that consideration is given to cases where losses from investments made by other group entities have the ability to weaken another entity or the group as a whole through intra-group investments (for example if there is explicit or implicit support from another entity). ICP15 discusses the type of asset permitted for the calculation of regulatory solvency requirements and issues of liquidity, security and diversification must all be considered.
44. Requirements will be set in respect of the way in which investments should be aggregated for the purposes of regulatory investment requirements that apply to the group and consideration has to be given to appropriate restrictions on intra-group transactions, for example, to limit contagion or reputational risk. Issues to be considered may include exposures to related counterparties and the exposures arising from investments in subsidiaries and interests over which the insurer has some influence. Specific issues for groups are the transferability of assets and fungibility of capital within the group.
45. ICP16 (ERM for solvency purposes) discusses the capital requirements in relation to the insurer's risks and introduces the requirement for an Own Risk and Solvency Assessment ("ORSA") to be prepared by insurers on a regular basis and submitted to the Authority. Insurance groups must also prepare and submit an ORSA for the groups where the Authority is Group Supervisor; submission of the ORSA to the Authority will be the responsibility of the designated insurer.
46. ICP17 (Capital adequacy) discusses the requirement for a group solvency assessment. Although the group assessment follows the same principles as the legal entity requirements in many respects such as the valuation of assets and liabilities using the economic balance sheet approach and the eligibility of assets, additional group requirements will apply regarding the consideration of non-regulated entities, the treatment of intra-group transactions, the aggregation of capital resources, assessment and recognition of group diversification benefits in the aggregate of capital requirement and intra-group holdings.
47. ICP17 permits a group level focus or a legal entity focus to be taken when carrying out the group solvency assessment.
48. The group level focus considers the group primarily as a single integrated entity for which a separate solvency assessment is made for the group as a whole on a consistent basis, including adjustments to reflect constraints on the fungibility of capital and transferability of assets among group members. Capital requirements may be calculated using the group's consolidated accounts or an aggregation method may be used whereby surpluses or deficits for each insurance legal entity in the group are summed with relevant



adjustments for intra-group holdings in order to measure an overall surplus or deficit at group level. An overall group regulatory capital requirement will apply.

49. The legal entity focus considers the group as a set of interdependent legal entities, with the focus on the capital adequacy of each of the parent and the other insurance legal entities in the group, taking into account the relationships with non-insurance group entities some of which may be unregulated. Under this approach, supervisors need to ensure that the capital requirements at the legal entity level fully take into account the relationships and interactions between all entities in the group.
50. ICP17 also allows regulatory capital to be calculated using a group internal model, subject to approval by the supervisor and liaison with other involved supervisors.
51. Groups may contain non-financial entities which may be unregulated but which are included in the scope of group-wide supervision. Possible ways of treating these are requiring the group to deduct the investment in such companies from the group's available regulatory capital or applying to the supervisor for permission to use a modelled assessment of the risks.

## Comments

52. The Authority has not yet determined which approach to the group solvency assessment is most appropriate to insurance groups where it is the Group Supervisor (i.e. group level focus v legal entity focus) and may decide that different approaches should be applied to different groups, depending on the nature of each group.
53. Early discussions with industry on the use of internal models at the legal entity level have indicated a desire that they should be permitted, subject to a third party assessment of the models. As consultation continues, the use of models for the solvency assessment of the insurance group will also be considered.

## Group-wide governance

54. Group-wide governance requirements are within ICP4 (Suitability of persons), ICP7 (Corporate Governance) and ICP8 (Risk management and internal control functions).
55. ICP5 (Suitability) requires the supervisor to ensure that Board Members, Senior Management, Key Persons in Control Functions and Significant Owners at insurance group level are fit and proper. This is likely to be relevant to the head of the insurance group as a minimum. Where there are other entities in the group subject to financial regulation,

the suitability assessment of the supervisor of those entities will be relied upon, subject to there being equivalent requirements in the relevant jurisdictions.

56. ICP7 expects insurance groups to implement group-wide governance policies for their subsidiaries. Where an insurer adopts group-wide corporate governance policies and practices, such group-wide policies and practices should meet the requirements and objectives of the standards at the legal entity level, taking into account the nature, scale and complexity of the operations of the legal entity and any group-wide risks that affect the entity.
57. The Authority will look to the designated insurer to facilitate compliance with corporate governance requirements at group level.
58. Groups may adopt different types of organisational or operational structures (referred to here as "management structures"), sometimes centralised, sometimes decentralised. The management structure of the group needs to be taken into consideration in evaluating its governance. However, the outcome must be such that risks are being identified, assessed, monitored and managed appropriately on a group-wide basis as well as on a legal entity basis.
59. To facilitate informed decision-making within a group, it is important that material information is delivered to all relevant senior management and boards in a timely manner on a group-wide basis as well as on a legal entity or line of business basis.
60. ICP8 deals with internal controls and expects insurance groups to have as a goal a coherent system where the controls form a group-wide framework (from process or transactional level, to legal entity level, to group level) which can be regularly assessed and improved as necessary for maximum effectiveness.
61. The risk management function should establish, implement and maintain appropriate mechanisms and activities to gain and maintain an aggregated view of the risk profile of each relevant insurer at a legal entity and at the group-wide level.
62. The [internal] audit function should carry out such activities as are needed to fulfil its responsibilities. These activities include among others reviewing and evaluating the adequacy and effectiveness of the insurer's policies and processes and the documentation and controls in respect of these, on a legal entity and group-wide basis and on an individual subsidiary, business unit, business area, department or other organisational unit basis.

## Comments

63. The suitability requirement at group level should already be largely covered by the requirement that a controller must be fit and proper though the Authority may want to more formally set out this requirement at group level.
64. The Corporate Governance Code of Practice for Regulated Insurance Entities (“CGC”) applies at legal entity level and covers many of the areas in ICP7 and ICP8 though not at group level. Many of these requirements are equally relevant at the level of the insurance group; this will continue to be the case as the CGC is enhanced as part of the new framework.
65. For illustrative purposes, it is envisaged that the following areas of the CGC may be relevant at group level, depending on the nature, scale and complexity of the group:
- a. Board composition and operation
  - b. Key functions and responsibilities of the board
  - c. Key responsibilities of directors
  - d. Key responsibilities of senior management
  - e. Outsourced functions
  - f. Actuarial function
  - g. Internal audit function
  - h. Compliance function
  - i. Risk management system
  - j. Internal control framework
  - k. Fraud prevention
  - l. Whistleblowing
  - m. Fair Treatment of Policyholders (see also comments on ICP19 below)
  - n. Policies and Procedures for key areas of the business.

## Group-wide Conduct

66. Group-wide conduct requirements cover ICP19 (Conduct of business), ICP18 (Intermediaries), ICP21 (Fraud) and ICP22 (AML/CFT).
67. ICP19 (Conduct of business) requires the application of appropriate policies and procedures on conduct of business across the insurance group such that fair treatment of customers on a group-wide basis is ensured, even if legal provisions in some jurisdictions set requirements that are potentially lower than those used in the group.

68. ICP18 (Intermediaries) requires that where intermediaries are part of a group, the application of policies and procedures across the group should result in the fair treatment of customers on a group-wide basis.
69. ICP21 (countering fraud in insurance) requires that there should be policies and procedures to counter fraud at group level.
70. ICP22 (AML/CFT) requires that there should be policies and procedures for AML/CFT at group level.

### Comments

71. As with governance (see above), to a large extent, the requirements that exist at legal entity level will be extended to apply at the level of the group. The Authority will look to the designated insurer to facilitate compliance.

### Public disclosure

72. ICP20 sets out requirements for public disclosure. The principle is as follows:

- The supervisor requires insurers to disclose relevant, comprehensive and adequate information on a timely basis in order 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.

73. The requirements apply at legal entity and at group level.

### Comments

74. The Authority is still to develop its proposals for ICP20 (Public disclosure), however, when doing so consideration will be given to which information should also be disclosed at the group level on the grounds that there is sufficient public interest in the insurance business in question. Where certain information is disclosed at group level, this information does not need to be disclosed also at the legal entity level.

## Supervisory Review and Reporting

### Supervisory review

75. Standards 9.7 and 9.8 cover off-site monitoring of insurance groups and on-site inspections respectively and require the following.
76. Off-site monitoring should cover all material entities in a group, including non-regulated entities. Where the supervisor does not have direct supervisory power, or only limited power for the off-site monitoring of non-regulated entities, including a holding company, the supervisor should at a minimum review the potential adverse impact on the insurer of such non-regulated entities.
77. Where the Group Supervisor does not have the power to conduct on-site inspections of a group entity in another jurisdiction, it may approach the host supervisor to propose a joint inspection or recommend that the host supervisor undertake such an inspection, when deemed necessary.

### Comments

78. Regulations will be made to require reporting at group level (see below); these are likely to include group prudential reporting, a group Own Risk and Solvency Assessment and a statement of group compliance with governance requirements. This will facilitate off-site monitoring in respect of the insurance group. The extent to which the reporting includes unregulated entities will depend on the activity of those entities and the ability/willingness of the head of the insurance group to exert influence over them. This will be of greater or lesser significance depending on how material those entities are to the group. As indicated above, however, they must always be taken into consideration.
79. Where an entity is regulated in another jurisdiction, information can be requested via that entity's regulator under existing statutory gateways which enable the exchange of information between supervisory authorities where this is for a valid supervisory purpose.
80. Reliance may be placed on the work of another supervisor to assist in off-site monitoring. This could be arranged formally via a supervisory college where as part of the college agreement, a host supervisor could be requested to perform an onsite inspection.

## Supervisory reporting

81. Reporting at group level is addressed mainly in standard 9.4 which requires the following (although the reference is to “insurers” these requirements apply equally to insurance groups):

The supervisor:

- Establishes documented requirements for the submission of regular qualitative and quantitative information on a timely basis from all insurers licensed in its jurisdiction;
- Defines the scope, content and frequency of those reports and information;
- Requires more frequent and/or more detailed additional information on a timely basis whenever there is a need;
- Sets out the relevant principles and norms for supervisory reporting, in particular the accounting standards to be used;
- Requires that inaccurate reporting is corrected as soon as possible; and
- Requires that an external audit opinion is provided on annual financial statements.

82. An insurer which is part of an insurance group is required to describe its group reporting structure, and to provide timely notification of any material changes to that structure and significant changes or incidents that could affect the soundness of the insurance group. The description of the reporting structure should include information on the relationships between entities within the group, and on the nature and volume of intra-group transactions.

83. A supervisor may request and obtain relevant information on any member of an insurance group, relating to its supervision of an insurer, subject to applicable legal provisions and coordination with the supervisors of affected jurisdictions.

84. The Group Supervisor should establish supervisory reporting requirements on a group-wide basis in coordination with the host supervisors. The reporting may include the submission of information on group entities in other jurisdictions.

85. The information submitted to the Group Supervisor should include information on the structure of the group, business operation and financial position of material entities within the group, relationship among entities within the group, including participation in other group entities and intra-group transactions with other entities within the group.

## Comments

86. Reporting requirements will arise out of the requirements in respect of group solvency, governance and conduct discussed above. In addition, however, specific reporting requirements will be required in respect of the insurance group as set out in ICP9; some of these will be similar to the reporting required at legal entity level while others will be concerned mainly with the group.
87. As with the other ICPs, the Authority will look to the designated insurer to facilitate compliance at group level.
88. Although Schedule 5 to the Act already enables the Authority to obtain information on group members, it is intended to set out in regulation specific requirements in relation to insurance groups. Where the request or requirement for information is in relation to other regulated entities the Authority will liaise with the relevant supervisor.

## Enforcement of requirements

89. If it appears to the Authority that a designated insurer is in breach of any provision of the Act or legislation made under it, the Authority has a range of powers in the Act which it can use in respect of the designated insurer. For example, the Authority can withdraw authorisation for carrying on new business or can impose certain actions on the insurer.
90. Where the matter pertains to a legal entity subject to another jurisdiction's regulatory provisions, the Authority will liaise with the supervisor of that entity to ensure that appropriate action is taken and the breach is addressed appropriately.
91. It is expected that the Authority will address most compliance issues through supervisory dialogue between the Authority, any other involved supervisor and the designated insurer. However, if remediation is not achieved, the Authority may, having considered all circumstances, the interests of policyholders and the views of any other supervisor, issue a direction to the designated insurer.

## 10. SUPERVISORY APPROACH

### Current supervisory approach

Although the Authority does not yet have the legal authority to act as the Group Supervisor and to apply requirements at the level of the insurance group, it is able under the current regime to carry out a number of “group supervision” tasks as follows:

- There are a number of statutory gateways which enable the Authority to exchange information with other supervisors and this is already actively used as a supervisory tool, facilitated by the implementation of a number of bilateral Memoranda of Understanding and the IAIS Multi-lateral Memorandum of Understanding;
- The above powers also enable the Authority to participate in supervisory colleges although this is currently only the case where another supervisor is the Group Supervisor;
- Within the scope of legal entity supervision, group risk can be a significant factor when assessing the risk profile of insurers;
- The controllers of authorised insurers and permit holders are already subject to fit and proper requirements under the Act.

In addition, Schedule 5 to the Act already enables the Authority to request information from any associate of an insurer though current practice is to do this via the authorised insurer if it is required.

### Developments to the Authority’s supervisory approach in light of group supervision requirements

The Authority’s supervisory approach will be enhanced to extend off site monitoring and potentially on-site inspections to the insurance group. There will be additional reporting at group level, notably a group ORSA, group solvency calculation etc. It is likely that there will be increased liaison with other supervisors and potentially with the head of the insurance group which may be an unregulated entity though our primary point of contact will be the designated insurer.

In addition to the provisions proposed in the Bill detailed requirements applying at group level will be formulated in regulations and guidance in respect of group supervision.



## **11. REQUEST FOR INFORMATION**

On the basis of information provided in the previous sections of this paper, all authorised insurers are required to provide information about the structure of the groups to which they belong in order to help the Authority ensure that the framework for group supervision is appropriate for the industry and to help the Authority understand better the scope of groups for which it is likely to be the Group Supervisor.

- 1. With reference to Section 3, do you think that you should be treated as belonging to an insurance group and if so, please provide your rationale.**
- 2. With reference to Section 4, where you believe that you belong to an insurance group, do you think that the Authority may determine that it is the Group Supervisor for that group? If so, please provide the rationale for your response.**
- 3. If a Group Supervisor is already in place for the group to which you belong, please provide the name of that supervisor.**
- 4. If you consider that the Authority will be Group Supervisor for your insurance group, would you expect to be the designated insurer?**

**5. Please provide a copy of an up to date structure chart which covers your whole group. Please categorise legal entities as follows:**

- a) Regulated entities (include which financial sectors these entities operate in);**
- b) Unregulated entities;**
- c) Where the legal entities are located.**