

2014 ANNUAL REPORT
OF THE
ISLE OF MAN
INSURANCE AND PENSIONS AUTHORITY



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FOREWORD
FROM THE
CHIEF EXECUTIVE

FOREWORD



Chief Executive Officer, David A Vick

“The framework must be appropriate to the risk profile of the Island’s businesses”

I am pleased to introduce the annual report of the Isle of Man Insurance and Pensions Authority for the year 2013-14. This covers a period of significant change and development for the Authority as we began to build on preliminary work carried out during the previous year and started in earnest the task of developing a revised insurance regulatory framework for the Isle of Man.

This framework must be appropriate to the risk profile of the Island’s businesses and, at the same time, consistent with international standards. In seeking to ensure that an appropriate balance is reached in undertaking this work, we continue to recognise the importance of engagement with our insurance industry and other relevant stakeholders, to achieve its successful development and implementation.

Consultation exercises to be launched in the summer of 2014 will begin to address various aspects of the framework, including the development of risk based valuation and capital adequacy assessments for long term insurers; the accompanying technical specifications for our first Quantitative Impact Study; and initial formal discussions on matters relating to conduct of business by licenceholders. These will all reflect our commitment to communication with stakeholders at appropriate stages of the project.

FOREWORD

I believe that this policy of early engagement with industry in these discussions and formal consultations has so far proved to be an effective mechanism and the Authority welcomes the constructive response of licenceholders to these exercises at a time of significant change for them, not only with regard to regulatory standards, but also in rapidly developing areas such as automatic information exchange and broader market developments. We look forward to this positive engagement continuing and the Authority's Roadmap for updating the [Isle of Man's Regulatory Framework for Insurance Business](#) will be updated in 2014 to reflect the progress made over the past year and to signpost work to be carried out in 2014-15.

Notwithstanding keen competition from other jurisdictions, the Island's insurance and pensions sectors continued to perform well in 2013. Our review of market statistics later in this report demonstrates the overall continued growth of these sectors, both in terms of premium income and assets under administration, illustrating the sectors' continued highly important contribution to the Isle of Man economy.

The Authority also remains committed to working with the representative bodies for the sectors that it regulates and with the Treasury and the Department of Economic Development to continue to seek to ensure that new business opportunities for the Island are developed with an appropriate regulatory framework.

Our work during the period in relation to the establishment of an appropriate and proportionate regulatory framework for insurance-linked securities and the creation under that of a new class of limited purpose (re)insurer (the 'Insurance Special Purpose Vehicle') reflects this commitment. The local insurance industry expects this framework to allow it to take advantage of opportunities to attract these types of structures to utilise the Isle of Man, with corresponding new business benefits potentially accruing to insurance managers and to professional and financial service providers in the Isle of Man.

"... continued overall growth both in terms of premium income and assets under administration "

Of course, developments in our regulatory framework must be progressed in a way that minimises the risk of disruption to the Authority's ongoing day to day supervisory activities. So far the Authority has been able to develop its resources to deal both with the project and with its ongoing work, although this will remain a challenge. The skills and commitment of our team have played a vital part in all this and I, and the board of the Authority, acknowledge this and are grateful to all our staff for their contribution. There are further challenges ahead of us but we are committed to continuing to adapt and develop to meet them, thus ensuring that the Island's regulatory framework remains robust, up-to-date and recognised as such internationally.



D A Vick
Chief Executive

REGULATORY OBJECTIVES

The Regulatory objectives (of the Authority) are:

- The securing of an appropriate degree of protection for policyholders and members of retirement benefit schemes;
- The maintenance of confidence in the Island's insurance and pensions industry in the Island and elsewhere; and
- The reduction in the extent to which it is possible for any insurance or pensions business to be used in connection with the commission of financial crime.

[Section 1 of the Insurance Act 2008]

REGULATORY DEVELOPMENTS
UPDATING THE FRAMEWORK FOR
INSURANCE SUPERVISION
SOLVENCY II EQUIVALENCE
PENSIONS SUPERVISORY FRAMEWORK

UPDATING THE FRAMEWORK FOR INSURANCE SUPERVISION

Updating the Island's regulatory framework for insurance business

The Island's current regulatory framework for insurance supervision is set out in the Insurance Act 2008. The international standards applicable to effective insurance supervision are the Insurance Core Principles ('ICPs') issued by the International Association of Insurance Supervisors ('IAIS').

As more fully set out in earlier reports, in October 2011, the IAIS adopted updated ICPs and these revised standards represent a significant enhancement of the previous framework. These revised ICPs emphasise the need for insurers and regulators to understand the nature and degree of risks assumed and provide for them appropriately with the ultimate aim of protecting the interests of policyholders, beneficiaries and claimants.

The strength of the Island's reputation as a responsible international offshore financial centre remains a significant factor in the Island's proposition to both existing businesses and new entrants to the market. To maintain this reputation, in so far as it relates to insurers, both Government and industry recognise that it is necessary to be able to demonstrate that the Island's insurance framework remains consistent with international standards.

Objectives of the development

The Authority recognises the challenges facing the Island in developing an enhanced regulatory framework which addresses current international standards and, at the same time, remains proportionate to the risks inherent in the Island's insurance industry, thereby applying appropriate regulatory standards on licenceholders as appropriate to their profile.

This will be a complex task, with sometimes competing demands, which will require extensive interaction between the Authority and the market to devise and implement what is anticipated to be the most significant update of the Island's dedicated insurance framework since the introduction of the Insurance Act in 1986.

In undertaking this project the Authority's objectives are to implement a framework for the regulation and supervision of insurers and general insurance intermediaries that -

- is consistent with the Authority's regulatory objectives of -
- ◆ securing an appropriate degree of protection for policyholders;

- ◆ the maintenance of confidence in the Island's insurance industry in the Island and elsewhere; and
- ◆ the reduction in the extent to which it is possible for any insurance business to be used in connection with the commission 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 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.

The framework resulting from this project will, therefore, apply to all insurance entities regulated by the Authority, and all sectors 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 revised regulatory framework will therefore be tailored, where appropriate, to the specific characteristics of different segments of the market.

In 2013 the Authority published details of the Authority's development approach in relation to the key workstreams in the form of the Authority's 'Roadmap for updating the Isle of Man's regulatory framework for insurance business'.

Shortly after the end of the period under review the Authority published its 2014 Roadmap. This follows the first issue of the Roadmap in 2013 and provides information on the progress and work undertaken between June 2013 and June 2014 and looks ahead to significant deliverables and milestones over the following twelve months.

Principal work streams

The principal workstreams of the project, which are more fully explained in the Roadmap, are summarised here:

Risk based capital

A fundamental aspect of the new framework will be 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 already contained within the

UPDATING THE FRAMEWORK FOR INSURANCE SUPERVISION

provisions of the Authority's Corporate Governance Code of Practice for Regulated Entities ("CGC").

However, the new framework is expected to 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.

All insurers will be required to comply with two levels of solvency: a minimum capital requirement, below which no insurer will be regarded as viable to operate effectively ("MCR") and a solvency capital requirement ("SCR") above which, on a routine basis, supervisory intervention, for solvency purposes, will not be expected; with a sliding scale of supervisory intervention between these points.

Concentrating initially on life insurers, the Authority is developing a standard capital and solvency model ("SCSM") which will address the main risks to which life insurers may be exposed. As part of this work the Authority issued a discussion paper on the valuation of assets and liabilities for solvency purposes in April 2014. This was followed shortly after by a consultation paper on the Assessment of Capital Adequacy for long term insurance, proposing a standard model for the calculation of solvency capital requirements prior to the first Quantitative Impact Study which would commence in October 2014.

The model for non-life insurers will be developed having regard to the wider variety, and often comparatively simpler risk profiles of Isle of Man non-life insurers, which include, for example, captives and other specialist insurers.

Enterprise risk management for solvency purposes

The new risk-based capital requirement will rely on insurers having an enterprise risk management ("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.

Consideration has to be taken of both current and future risk exposure and insurers will be expected to undertake periodic, forward-looking analysis of their ability to meet their obligations under various adverse economic and business scenarios. The purpose of this will be to ensure that the insurer maintains adequate capital and other financial resources to do this both on 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 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. 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.

Group-wide supervision

The global financial crisis in 2008/09 highlighted the inter-linkages within the financial system and the potential systemic risk arising from insurers being part of larger insurance and/or financial groups. As a consequence, international bodies such as the IAIS are increasingly focused on financial stability. A key component of financial stability 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.

The Authority currently participates in group supervision arrangements, attending supervisory colleges where it is appropriate to do so and has a policy of active exchange of information with other regulatory authorities where it is for regulatory and supervisory purposes. However, there is much detail still to be addressed and the Authority needs additional powers to enable it to act as group-wide supervisor for the limited number of insurers where it is appropriate to do so.

Public disclosure

Ongoing work within all international standard setters is leading towards greater transparency by financial institutions by the disclosure of relevant, comprehensive and adequate information on a timely basis.

Such information will provide policyholders of insurers and market participants with a clear view of the insurer's business activities, performance and financial position, thereby enhancing market discipline and understanding of the risks to which an insurer is exposed and the manner in which those risks are managed.

Whilst there are no existing requirements in the Isle of Man for the mandatory disclosure of an insurer's business activities, including its financial position, other than to the Authority as regulator, the Authority recognises that its work in this area will require careful consideration to be given to achieving an appropriate balance in this work.

UPDATING THE FRAMEWORK FOR INSURANCE SUPERVISION

Conduct of business

Matters in relation to the 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. The CGC introduced into Isle of Man's regulatory requirements the concept of fair treatment of policyholders. However, the Authority recognises that more formal requirements are needed in this area in order to recognise more explicitly what is for many insurers, standard corporate practice.

Shortly after the end of the period under review, the Authority issued a discussion paper on conduct of business matters setting out the principles for a new conduct of business framework.

Regulatory reporting

As new requirements are implemented (for example, in the area of capital adequacy and solvency) new and enhanced reporting requirements will replace the current requirements. To facilitate this, the Authority is in the process of specifying a new IT system which will enable insurers to submit information electronically to the Authority and which will enable the validation and storage of information received in such a way that it can be analysed more efficiently, so leading to more effective supervision. The Authority believes that such a reporting system could also bring some efficiencies to regulated entities in their reporting process.

In addition to the quantitative reporting outlined above, it is also anticipated that there will be additional qualitative reporting to assist the Authority in performing effective off-site monitoring. This will allow regulated entities and the Authority to focus their resources more efficiently in respect of the work for on-site inspections.

Changes to primary legislation

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

Drafting instructions for an Insurance (Amendment) Bill, which will introduce necessary amendments to the Insurance Act 2008, have been prepared and it is intended that the Bill will be introduced in the House of Keys in the 2014/15 legislative programme.

Industry participation

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 upon the constructive relationships it has already developed 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 updates provided from time to time at relevant events over the last year the Authority has hosted four separate briefings to industry representatives and the auditing profession, in order to provide early consideration of matters and to obtain the feedback and views of these groups. Such meetings will continue to be held as appropriate, including with the non-life sector.

All proposed new requirements will continue to be subject to public consultation and the Authority will seek to ensure that all relevant stakeholders have sufficient opportunity to consider the changes and provide their feedback.

The key priorities for the forthcoming periods in respect of this initiative are to -

- continue work in the development of a Standard Capital and Solvency Model, initially for life insurers and later non-life insurers, including the Island's first Quantitative Impact Study currently scheduled for Q4 2014;
- continue consideration of, including discussions with industry, public disclosure requirements taking into account developments elsewhere;
- carry out further work on proposals for group-wide supervision; and
- issue and initial discussion paper in respect of conduct of business matters.

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INSURANCE SUPERVISION

SOLVENCY II

PENSIONS SUPERVISORY FRAMEWORK

SOLVENCY II

Solvency II

The European Union's Solvency II project is a fundamental reform of the prudential regulatory framework for the European insurance industry. It will establish a revised set of EU-wide solvency and capital requirements, governance and risk management standards, supervisory oversight process and disclosure requirements. The framework is currently due to be introduced within Europe on 1st January 2016.

Under the provisions of the Solvency II Directive a third country, such as the Isle of Man, may be assessed by the European Commission as being 'equivalent' where it is able to demonstrate that its legislative framework and supervisory regime in respect of insurance business provides similar levels of policyholder and beneficiary protection to that provided under Solvency II.

Where internationally active groups operate in jurisdictions which are committed to implementing an equivalent framework and are able to demonstrate real progress and commitment to doing so, a further concept of 'transitional equivalence' will apply following the introduction of the final implementing measures.

Another very important aspect of the proposed implementing measures of Solvency II is the concept of 'bifurcation' (or differentiated regulatory standard). Bifurcation will enable a third country to seek equivalence for a clearly defined segment of its insurance regulatory framework, with all other areas falling outside the equivalence assessment.

In considering the impact of Solvency II on the Island, and specifically the life sector, it can be seen from the table below that the majority of Isle of Man insurers of long term business

belong to groups which are headquartered within the EU and or have interests in countries which are seeking equivalence or transitional equivalence.

It is therefore unsurprising that it is the view of the Manx Insurance Association as the representative body of the Island's life assurance business that insofar as it relates to the Island's life sector a positive equivalence assessment by the EU Commission of the Island's insurance framework would be beneficial.

Accordingly, in undertaking its work in the development of a risk based capital and solvency assessment framework consistent with the revised ICPs (further detail in this regard is shown on pages 8-10) the Authority will seek to ensure that the revised framework, insofar as it applies to the life sector, will also be capable of a positive equivalence assessment under the Solvency II framework.

During the year under review the Authority continued its discussions with the European Commission and with the European Insurance and Occupational Pensions Authority (EIOPA) in respect of transitional equivalence under the Solvency II regime. As a result of these discussions EIOPA commenced an initial assessment of the Authority's current and proposed framework .

Number of Isle of Man (re)insurers of long term business:	
- headquartered in the EU	9
- headquartered in a jurisdiction undertaking a full equivalence assessment	3
- with branches in a jurisdiction committed to transitional equivalence	5

Number of permitted insurers of long term business with branches in the Isle of Man:	
- established in a jurisdiction committed to transitional equivalence	3

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PENSIONS SUPERVISORY FRAMEWORK

The Isle of Man's pensions sector continues to demonstrate steady growth, with funds under management attributable to pensions rising to the current levels of £2.4 bn.

In order that this position is sustained, it is important that standards and business practices are up to date, creating an environment in which companies are able to compete and grow.

In order to maintain a suitable regulatory environment for this sector, the Isle of Man continues to review its framework with reference to the diverse nature of the products provided by Isle of Man trustees and professional schemes administrators, the clients and ultimately the needs and protection of the scheme members. In undertaking this work the Authority also seeks to take into account developing international standards.

In addition to the review of the insurance framework, detailed earlier, the development plans of the Authority incorporate a review of international developments and regulatory standards in the pensions industry. This work continued throughout the period and will include a detailed consideration of the Retirement Benefits Schemes Act 2000 to ensure that regulatory changes are implemented where it is appropriate to do so.

This work incorporates:

- a detailed review of the current secondary legislation in place with a view to updating references to outdated legislation;
- a review of the legislative framework in place issued by the Authority with a view to ensuring that it is consistent with, and complementary to, applicable legislation issued by the Treasury's Income Tax and Social Security Divisions;
- a review of the primary legislation in place to ensure that it remains appropriate to the developing industry on the Island;
- The issue of detailed guidance as appropriate in the areas of AML/CFT, good governance, conduct of business and transparency.

SECTOR REVIEW AND PERFORMANCE
SECTOR SIZE AND PERFORMANCE
AUTHORISATIONS AND REGISTRATIONS
INSURANCE SECTOR REVIEW
PENSIONS SECTOR REVIEW

SECTOR SIZE AND PERFORMANCE

Sector size and performance

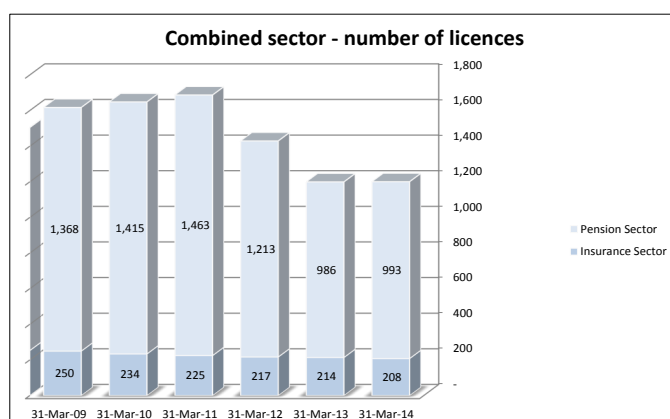
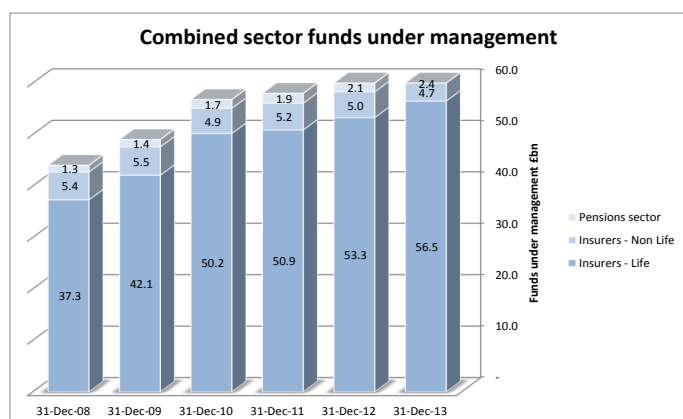
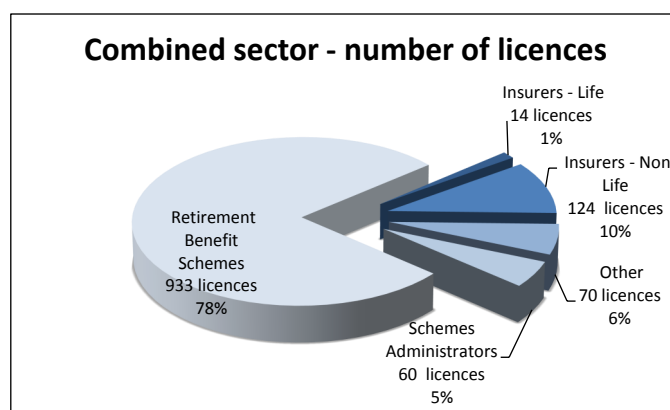
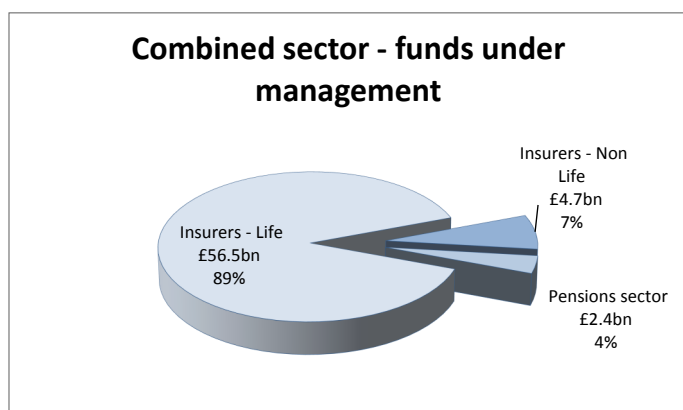
The insurance sector is the largest single contributor to the Isle of Man economy, contributing 15.2% (Source: 2011/12 National Income Accounts) of the Island's gross domestic product, increasing from 14.7% in 2009/10.

In the year under review assets under management within the Island's insurance and pensions sector continued recent trends increasing by just over 5% on the prior year position to £63.6 billion representing a US dollar equivalent total of just under US \$105 billion

In terms of the number of licences in issue, 78% of the registrations in force are in respect of retirement benefit schemes registered with the Authority, whereas the assets managed within these arrangements represent only 3.8% of the total sector assets, up from 3.5% the prior year.

At 31 March 2014 the number of authorisations in the life sector represented only 1% of the licences in issue, however this sector continues to grow in significance with assets under management rising to £56.5bn at the period end. This sector continues to experience consolidation as the smaller companies merge to gain traction in the market place. Whilst this trend is expected to continue the Authority is experiencing an increase in enquiries from companies considering the Island for new start up operations.

Whilst the number of licences in the non-life sector continues to decline as the older long tail business runs off and companies terminate their liabilities, the Authority is noticing that the downward trend is slowing and if recent trends continue this may reverse over the next few years. Funds under management in respect of the non-life sector have also reduced slightly to £4.7 billion, representing 10.3% of the industry total.



SECTOR REVIEW AND PERFORMANCE

SECTOR SIZE AND PERFORMANCE

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INSURANCE SECTOR REVIEW

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AUTHORISATIONS AND REGISTRATIONS

Authorisations and registrations

Insurance sector

Whilst the value of assets under management continues the upward trend of net investment into the sector, the year ended 31 March 2013 saw a net decline of six insurance sector authorisations and registrations. This is largely due to the continuing trend of consolidation throughout the sector.

Six non-life insurers surrendered their authorisations following the termination and settlement of their insurance liabilities in full and five new non-life insurers were granted registration. In addition, there were two surrenders attributable to the insurer redomiciling outside of the Isle of Man, a increase of two on the previous year.

The statistics detailed in this section include the effects of the reclassification of two captive insurers of long term business being reclassified from the non-life category to the life category of insurers.

Recent years have seen a slight yet steady decline across the sector in authorisations, however local industry representative organisations continue to work with the Isle of Man Government's Department of Economic Development to determine strategic plans to further develop the industry and attract new sectors.

In this regard the Authority has over the period under review continued its work to establish an appropriate and proportionate regulatory framework for insurance-linked securities and the creation under that of a new class of limited purpose (re)insurer (the 'Insurance Special Purpose Vehicle'). The local insurance industry expects this framework to allow it to take advantage of opportunities to attract these types of structures to utilise the Isle of Man, with corresponding new business benefits potentially accruing to insurance managers and to professional and financial service providers in the Isle of Man.

Pensions sector

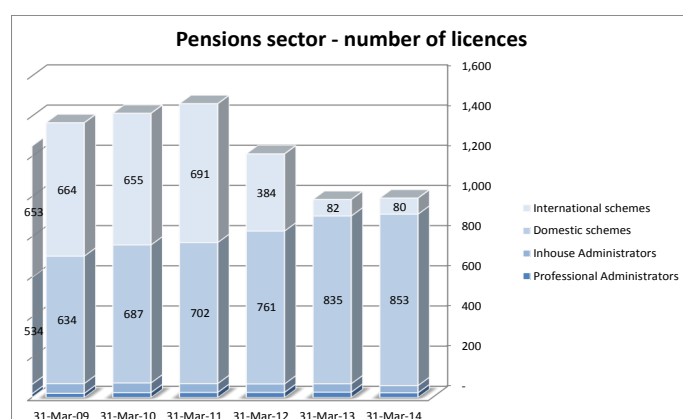
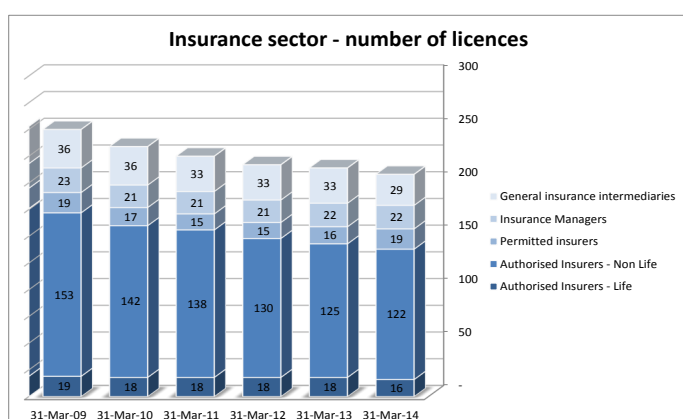
The Authority continues to see strong growth in the pensions sector with a net increase of 16 new schemes in the year with the average funds under management per authorised scheme increasing from £2.3 million to £2.6 million. This sector continues to grow in significance with a number of large schemes being registered shortly after the period under review increasing the expected funds under management attributable to the pensions sector in respect of 2014/15 to over £5 billion.

Summary of registrations

	31 Mar 14	31 Mar 13
Authorised insurers—Life	16	18
Authorised insurers—Non Life	122	125
Permitted insurers	19	16
Insurance managers	22	22
General insurance intermediaries	29	33
Total insurance sector	208	214

Summary of registrations

	31 Mar 14	31 Mar 13
Professional administrators	24	27
In-house administrators	36	42
International schemes	80	82
Domestic schemes	853	835
Total pensions sector	993	986



SECTOR REVIEW AND PERFORMANCE

SECTOR SIZE AND PERFORMANCE

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INSURANCE SECTOR REVIEW

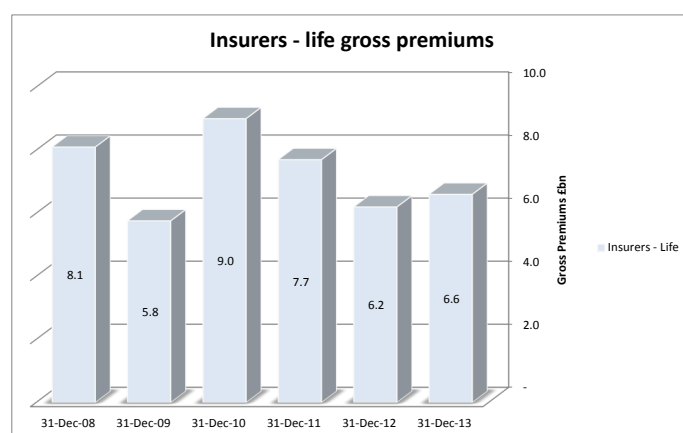
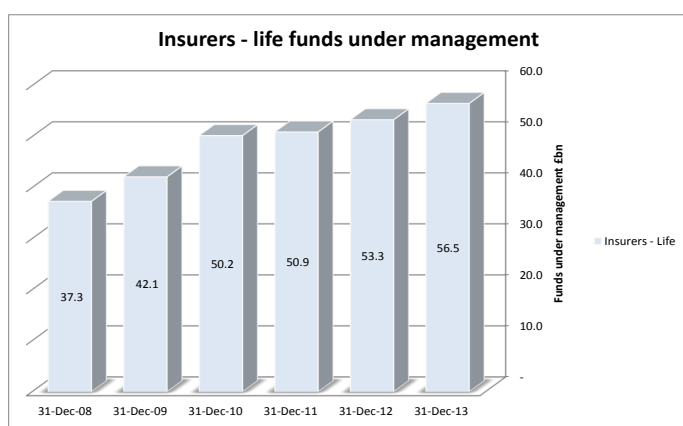
Long-term insurance business

The life assurance sector in the Isle of Man consists predominantly of unit linked long-term insurance business, with non-unit linked technical reserves representing less than 1% of the total. Therefore, very often the principal risks facing the Island's life sector lie not in market and insurance risk but rather in managing the operational and expense risks. Where companies sell internationally, there may also exist exposure to foreign exchange risk.

As with all unit linked businesses, the volume of business written is particularly sensitive to the performance of global

financial markets, and maintaining market share in the increasingly competitive markets continues to be a focus for many of the Island's life companies. However, the sector continues to perform strongly, in comparison to the world's markets, with funds under management remaining constant at £56.5 billion.

Gross premium incomes recovered slightly following the falls in premiums received in the prior year with gross premiums rising to £6.6 billion from £6.2 billion reflecting the cautious stabilisation of the European and the wider global markets. The sector remains optimistic about future growth potential in all markets.



Non-life insurance business

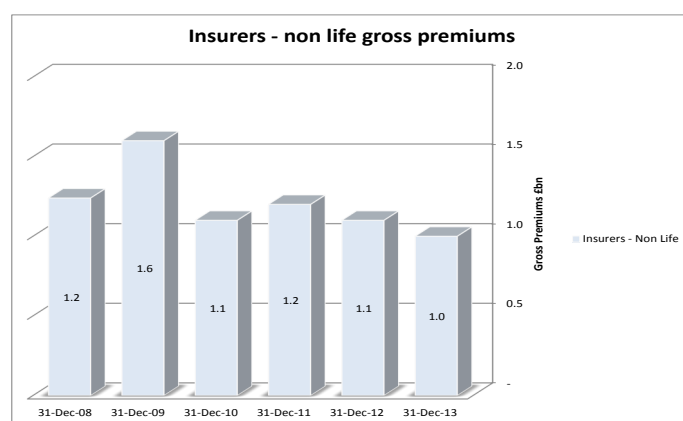
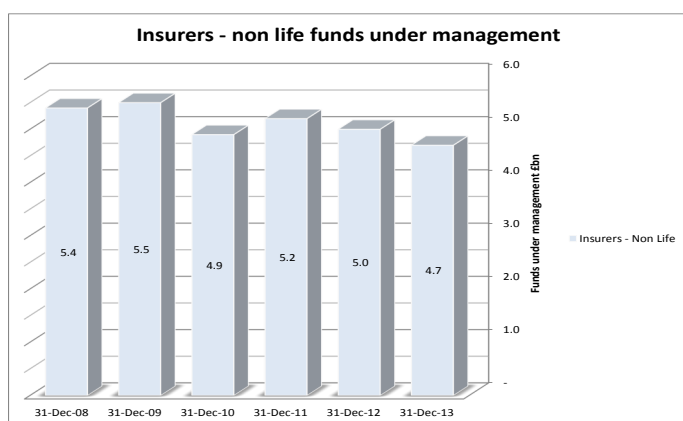
The non-life sector consists of non-life authorised insurers (64%), general insurance intermediaries (15%), insurance managers (11%), and permitted insurers (10%). The non-life authorised insurers are predominantly captive in nature, in the broadest sense of the term, and as the soft commercial insurance market continues this is being translated in a small reduction in the funds under management to £4.7 billion at the year end.

In contrast to the life sector, entities within the Isle of Man's non-life sector tend to maintain a conservative asset mix that

is high in cash and cash equivalents. Accordingly, total assets were affected little by the continued economic uncertainty.

The local industry body for captive insurers, the Isle of Man Captive Association, remains positive in its outlook and continues to work actively with the Isle of Man Government's Department of Economic Development to develop further opportunities within the non-life sector.

Gross written premiums have fallen marginally in the year to £1.0 billion, as compared to £1.1 billion in 2012.



SECTOR REVIEW AND PERFORMANCE

SECTOR SIZE AND PERFORMANCE

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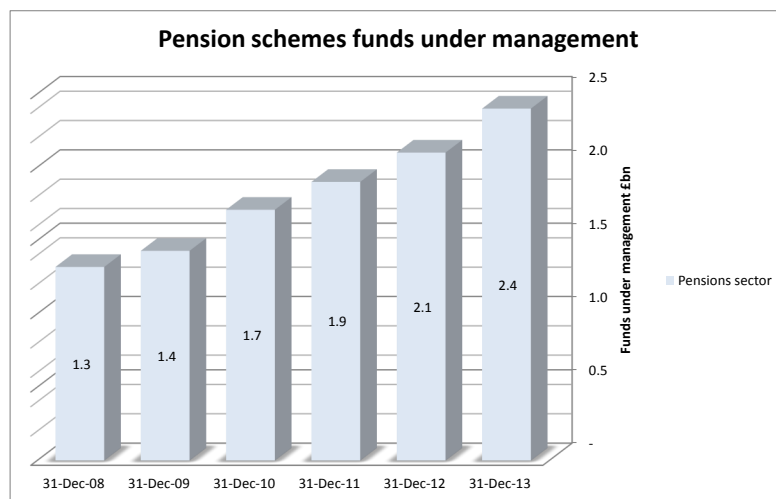
INSURANCE SECTOR REVIEW

PENSIONS SECTOR REVIEW

PENSIONS SECTOR REVIEW

Retirement benefits schemes

The pensions sector in the Isle of Man continues to show growth with pension fund values continuing the upward trend reaching £2.4 billion of assets under management in 2013, representing an increase of 11% over the prior year.



FUNCTIONS OF THE AUTHORITY

FUNCTIONS OF THE AUTHORITY

Functions of the Authority

History

The development of the Isle of Man's insurance and pensions sector arose from the Government's decision in the early 1980s to seek to encourage diversification in the finance sector.

The Authority is a statutory board established in 1986 in order to regulate the insurance sector. Originally known as the Insurance Authority, its constitution is currently set out in the Insurance Act 2008. Following the addition to its responsibilities of the development and implementation of a supervisory framework for pensions schemes in January 1997, it became the Insurance and Pensions Authority.

In exercising its powers, the Authority seeks to ensure that the regulatory framework for insurance and pensions business in the Island continues to meet appropriate international standards. It also recognises that the maintenance of an environment that allows high quality business to develop is an important factor for it to consider in its work.

Structure of the Authority

Under the Insurance Act 2008, the holder of the office known under the Act as the Supervisor, in practice the Chief Executive, is responsible for the general administration of the Insurance Act and the Retirement Benefits Schemes Act 2000, together 'the Acts'.

In carrying out his duties and the supervisory functions of the Acts, the Supervisor is required to exercise his powers in a way that meets the regulatory objectives set out in section 1 of the Insurance Act, having due regard to the following matters in exercising the functions attaching to that role:

- the need to balance the regulatory objectives;
- the international character of the insurance industry and its markets and the desirability of maintaining the competitive position of the Island;
- the responsibilities of insurers;
- the need to use resources in an efficient and economic manner;
- the need to promote public understanding of the

insurance industry; and

- the desirability of insurers—
 - ✓ being aware of the risk of their businesses being used in connection with the commission of financial crime; and
 - ✓ taking appropriate measures (in relation to administration and employment practices, the conduct of transactions and otherwise) to prevent financial crime, facilitate its detection, and monitor its incidence and devoting adequate resources to these matters.

Functions of the Authority

The statutory functions of the Authority are currently set out in Schedule 1 to the Insurance Act 2008 and are:

- the making of public documents under the Acts and the Retirement Benefits Schemes Act 2000 ("the Acts");
- supervising and keeping under review the administration and implementation of the Acts;
- supervising and keeping under review the exercise of functions by the Supervisor under the Acts;
- keeping under review the question whether the Supervisor is, in exercising the Supervisor's functions under the Acts, using resources in an efficient and economic manner;
- considering and making recommendations or issuing directions to the Supervisor as a result of reviews carried out by it or reports made to it by the Supervisor;
- otherwise giving guidance and directions to the Supervisor as it thinks fit with respect to the exercise or performance of the powers of the Supervisor under the Acts whether generally or in any particular case; and
- determining the general policy and principles by reference to which it performs particular functions.

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SUPERVISORY APPROACH

Authorisation process

Applications for authorisation or registration under the Insurance Act 2008 or the Retirement Benefits Schemes Act 2000 are made in writing by the applicant to the Supervisor. As part of this authorisation process the Authority seeks to ensure that new entrants to the insurance and pensions sectors meet the required minimum standards expected of an Isle of Man regulated entity in order to protect the reputation of the Island as a reputable and responsible financial centre.

In practice, any application that is received is considered by the supervisory team responsible for the prudential supervision of that sector, and where necessary, additional information is obtained and a recommendation is made to the Supervisor by the team. Authorisations and registrations may be made subject to conditions at any time as required.

The documentation required to be submitted as part of the application is defined in regulations and guidance and consists of sufficient information to enable the Supervisor to reach a view as to:

- the legal and beneficial ownership of the business;
- whether the key functionaries are fit and proper to undertake their respective roles. In this context key functionaries are those persons who are able to exert influence, control in the stewardship of the entity or who undertake key management and control functions and include:
 - ✓ controllers, including the ultimate beneficial owners;
 - ✓ directors or trustees;
 - ✓ appointed or scheme actuary;
 - ✓ senior management;
 - ✓ company secretary;
 - ✓ managers;
 - ✓ auditor;
 - ✓ money laundering reporting officer; and
 - ✓ in the case of pension schemes, the:
 - ◆ registered schemes administrator; and
 - ◆ investment manager of the scheme;
- whether the applicant has adequate financial resources to support the business proposed;
- whether the business has an appropriate level of management on the Island, with adequate experience of the business carried out; and
- whether the business has in place an appropriate and effective system of governance that provides for its sound and prudent management.

Where the business, its controller, or the individual officers of the proposed business have undertaken regulated activities in the Island or elsewhere, the Authority will ordinarily undertake inter-regulatory communications to exchange information of common interest.

The status of an application may usually be expected to be determined within six weeks following receipt of all required information, unless particular matters arise which may require further investigation.

Where necessary to do so the Supervisor may refuse or approve the application subject to conditions. In any event, the Supervisor's decision for approval, with or without conditions attaching, or for refusal is notified to the applicant in writing.

Appeal procedures exist whereby, should the applicant be aggrieved by the decision of the Supervisor, he may submit an appeal to the Insurance Tribunal or Retirement Benefits Schemes Tribunal as the context requires.

SUPERVISORY APPROACH

Ongoing supervision

On completion of the approval process, the Authority's knowledge and understanding of the regulated entity, its activities and the principal risks to which it is exposed are reassessed and appraised by the Authority on an ongoing basis through a combination of desk-based analysis and on-site inspection visits.

Regulatory reporting and other desk-based analysis tools

The Authority receives information about each regulated entity from a variety of sources, including annual, quarterly and ad hoc regulatory submissions. These contain detailed information in respect of the financial position and results of each regulated entity, the insurance programme or scheme details, and where applicable, information in respect of the actuarial valuation of liabilities. In addition, regulated insurance entities are required to report to the Supervisor on an annual basis, information in respect of the effectiveness of the governance, risk management and control arrangements in place.

Meetings are held with insurance entities or their managers as required to address specific issues arising. As many of the larger insurers in the Island are part of wider insurance or financial services groups, bilateral meetings with other regulators or participation within supervisory colleges form an important aspect of understanding how these entities fit within the wider group. These supervisory colleges also consider the intra-group risks and dependencies that may arise from these relationships.

On-site inspections

The Authority's on-site inspection programme complements its desk-based analysis, and may take the format of a routine visit or may focus on a specific area of interest, policy or procedure, including that of compliance with applicable anti-money laundering and prevention of terrorist financing and proliferation legislation.

Each on-site inspection is undertaken by the supervisory team with responsibility for the day-to-day supervision of the entity concerned, thereby ensuring continuity and consistency of approach in assessing the individual business, the corporate and management structure, and the activities and the risks to which the company is exposed.

An exception to this may be where a company has been required by the Supervisor to undertake remedial action or justify a position and the Supervisor commissions third party professionals to undertake a review of this work. The cost of such work would ordinarily be met by the company concerned.

This power is an important tool in the Authority's work to achieve its regulatory objectives; to protect the interests of policyholders and members of schemes; to protect the Island's reputation; and the reduction, to the extent possible of the exposure of the Island's insurers and pensions providers to financial crime. In the year under review this power was used to address concerns of the Authority in respect the appropriateness of increases to charges being applied to certain contracts of insurance, with the result of remedial action being required of the licenceholder concerned.

The on-site inspection process remains a labour-intensive one and the Authority is committed to continuing to examine ways to make the process as efficient as possible, both from its own perspective and from the point of view of the businesses visited. Notwithstanding this, the ongoing maintenance and development of this programme is likely to require further consideration of the resources to be focused on this important aspect of the supervisory process.

SUPERVISORY APPROACH

Surrender of permissions

When a regulated entity intends to surrender its authorisation or registration, the Supervisor will require a declaration from its Directors that it is no longer carrying on any regulated activity under the Insurance Act 2008 or the Retirement Benefit Schemes Act as appropriate.

In the case of an insurer information is also sought as to the means by which its insurance exposures have been terminated. Where the insurer's business is terminated other than by means of a portfolio transfer under a court sanctioned scheme, it would be usual for the Supervisor to require from the board of directors a list of all the insurance contracts issued by the insurer since its authorisation, together with an explanation as to how the insurer's existing and future potential exposure under each have been fully and permanently terminated.

In addition, in considering the application to surrender the Supervisor may request additional information as may be required, including the requirement for the company to prepare and submit audited financial statements up to the point immediately prior the termination.

On surrender of authorisation or registration as appropriate, the directors must ensure that the legal name of the entity and any trading names are changed in order to avoid a company from continuing after surrender with a name that suggests it is 'holding out', undertaking, or is able to undertake, an activity requiring a licence from the Authority.

Liaison with industry and trade bodies

The Authority believes that effective liaison with relevant industry bodies has an important role to play in it maintaining an appropriate level of understanding of issues facing the sector.

The Manx Insurance Association, the Isle of Man Captive Association, the Manx Actuarial Society, the Isle of Man Association of Pension Scheme Providers, the Isle of Man Financial Planners and Insurance Brokers Association, and other relevant bodies, all represent the views of their respective sectors in meetings with the Authority.

Matters of common interest, the exchange of views on local regulatory and international developments, and working towards understanding the strengths, opportunities, issues and strains experienced by the industry overall are all discussed.

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Cooperation and coordination in supervision

Given the international focus of the Island's insurance and pensions businesses together with the significant proportion of insurance entities that are members of groups established or operating elsewhere, the safe and effective sharing and communication of relevant information and intelligence between interested supervisory authorities and enforcement agencies remains an important and integral part of the effective supervision of internationally active entities.

The Authority is committed to establishing new, as well as maintaining and developing further, existing working relationships with other supervisory authorities internationally as well as those closer to home, to allow the appropriate and timely exchange of information to facilitate cross-border and cross-sectoral supervision of both the individual legal entity and on a group-wide basis.

In addition, the Authority believes that responsible and appropriate international cooperation can be an effective and powerful tool assisting both supervisory authorities and law enforcement agencies in the protection of global financial systems from those who would wish to abuse them to launder money, finance terrorist activities or the proliferation of weapons of mass destruction.

Group supervision

A number of the companies that the Authority supervises are subsidiaries of entities that are regulated in other jurisdictions, and several of its regulated entities have branch operations in other jurisdictions.

In order to understand fully the nature, scale and complexity of such entities, their activities and the risks to which they may be exposed, it is necessary to understand the intra-group relationships and dependencies that may exist.

The Authority is a member of and participates in a number of supervisory colleges in respect of groups of which Isle of Man insurers are members and liaises with supervisors in the Isle of Man and elsewhere about matters of common interest including systemic risk, group-wide solvency and group crisis management plans.

The further development of an appropriate framework for group supervision will be an important aspect of the Authority's work to implement its updated regulatory regime for insurance business.

Power to exchange information

Similar to other supervisory bodies, the Authority has a statutory duty of confidentiality in respect of information collected in the performance of its functions under the Acts. Such information is classified as restricted information and may only be disclosed to third parties with the consent of the person from whom the information was received and, if different, the person to whom it relates, subject to the statutory gateways set out in Schedule 6 to the Insurance Act 2008.

These gateways permit the Authority to disclose relevant restricted information, subject to certain safeguards, with recognised regulators and other agencies for the valid purpose of insurance or pension supervision or in respect of any criminal proceedings or investigations which have been or may be initiated in the Island or elsewhere.

“responsible and appropriate international cooperation can be an effective and powerful tool”

Memorandums of Understanding (“MoUs”)

The legal powers of schedule 6, enabling the Authority to co-operate with other regulatory organisations both domestically and internationally, are supported by a number of bilateral MoUs with regulatory authorities world-wide.

MoUs provide the basis for a two way flow of information and between supervisory authorities. They provide a framework which sets out the basis on which the Authority can rely that the information it exchanges with other supervisors is treated as confidential, together with the circumstances in which that

COOPERATION AND COORDINATION IN SUPERVISION

information may be shared further where it is appropriate to do so.

The Authority has bilateral MoUs in place with the following authorities:

- Isle of Man Financial Supervision Commission (15 November 2004)
- Dubai Financial Services Authority (21 February 2005)
- Central Bank of Bahrain (23 February 2005)
- Malta Financial Services Authority (27 June 2005)
- Isle of Man Assessor of Income Tax (Isle of Man) (10 May 2006)
- The Bank of England (for itself and on behalf of the Prudential Regulatory Authority) (Originally entered into by the Financial Services Authority on 18 December 2006 and ratified by the Bank of England on 1 October 2012)
- Insurance Authority of Hong Kong Special Administrative Region of The People's Republic of China (8 February 2007)
- Qatar Financial Centre Regulatory Authority (4 June 2007)

Multilateral Memorandum of Understanding

On 10 July 2012 the Isle of Man Insurance and Pensions Authority became the 27th signatory to the International Association of Insurance Supervisors ('IAIS') Multilateral Memorandum of Understanding ('MMoU').

This MMoU establishes a formal basis for cooperation and information exchange between the signatory authorities regarding the supervision of insurance companies on a solo and group basis, where cross-border aspects arise, including AML/CFT matters.

In order to become a signatory to the MMoU the Authority had to undergo a rigorous validation process of the insurance regulatory framework and procedures in place for the

exchange of information to ascertain whether the minimum standards of the MMoU are satisfied, including those of professional secrecy and valid purpose.

Cooperation in domestic supervision

In carrying out its functions, the Authority maintains a close working relationship with the Isle of Man Financial Supervision Commission ('Commission'), the regulator of the Island's banking, fund, corporate services and trust services sectors.

The Authority meets regularly with the Commission and works in conjunction with it to ensure a consistent approach where financial services groups contain licenceholders of the Commission who also hold authorisations or registrations from the Authority, and in other appropriate circumstances.

In developing further the Authority's legislative framework in respect of anti-money laundering and combating the financing of terrorism, the Authority liaises about matters of common interest with the Commission, the Department of Home Affairs, the Isle of Man Financial Crime Unit, and Customs and Excise. Its Chief Executive is also co-chair of the Island's Joint Anti-Money Laundering Advisory Group, which provides a forum for discussions between Government, regulators and industry.

In addition, the Authority's responsibilities in relation to the supervision of pension schemes and administrators mean that it is important for the Authority to maintain a dialogue on such matters with the Treasury's Income Tax and Social Security Divisions.

The Acts also make provision for the Authority to share information with the Financial Services Ombudsman and the Isle of Man Pensions Ombudsman where appropriate. These bodies are responsible for the Island's independent dispute resolution service for customers with a complaint against an Isle of Man financial services entity or a retirement benefits scheme, its trustees or registered schemes administrator respectively.

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The following 42 regulatory bodies are signatories to the IAIS MMoU as at the date of publication of this report:

- Australia Prudential Regulation Authority;
- Austria, Financial Market Authority;
- Belgium, Banque Nationale de Belgique;
- Bermuda Monetary Authority;
- Brazil, Superintendencia de Seguros Privados;
- British Virgin Islands, Financial Services Commission;
- Canada, Office of the Superintendent of Financial Institutions;
- Cayman Islands Monetary Authority;
- Chile, Superintendencia de Valores y Seguros;
- China Hong Kong, Office of the Commissioner of Insurance;
- Chinese Taipei, Financial Supervisory Commission;
- France, Autorité de contrôle prudentiel—ACP;
- Germany, Bundesanstalt für Finanzdienstleistungsaufsicht;
- Guernsey Financial Services Commission;
- India, Insurance Regulatory and Development Authority;
- Ireland, Central Bank of Ireland;
- Isle of Man, Insurance and Pensions Authority;
- Israel, Capital Markets, Insurance and Savings Division;
- Italy, Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo;
- Japan Financial Services Agency;
- Jersey Financial Services Commission;
- Liechtenstein, Financial Market Authority;
- Insurance Supervisory Commission of the Republic of Lithuania;
- Luxembourg, Commissariat aux assurances;
- Autoridade Monetaria de Macau;
- Malta Financial Services Authority;
- Mauritius, Financial Services Commission;
- Mexico, Comisión Nacional de Seguros y Fianzas;
- De Nederlandsche Bank;
- Polish Financial Supervisory Authority;
- Qatar Financial Centre Regulatory Authority;
- Romania, Insurance Supervisory Commission;
- Monetary Authority of Singapore;
- Swiss Financial Market Supervisory Authority;
- Prime Ministry, Undersecretariat of Treasury of Turkey;
- United Arab Emirates, Dubai Financial Services Authority;
- United Kingdom Financial Services Authority;
- USA, Connecticut Department of Insurance;
- USA, Nebraska Department of Insurance;
- USA, California Department of Insurance;
- USA, Virginia State Corporation Commission, Bureau of Insurance;
- Washington State Office of the Insurance Commissioner.

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COMBATING FINANCIAL CRIME

Prevention of money laundering and countering the financing of terrorism

Combating financial crime

Most organised criminal activity is aimed, directly or indirectly, at making money. Money laundering is the generic term used to describe the process by which criminals disguise the original ownership and control of the proceeds of criminal conduct by making such proceeds appear to have derived from a legitimate source.

The objective of the criminalisation of money laundering is to take the profit out of crime. The rationale for the creation of the offence is that it is wrong for individuals and organisations to assist criminals to benefit from the proceeds of their criminal activity or to facilitate the commission of such crimes by providing financial services to them.

The threat to the global and domestic financial system posed by money laundering and terrorist financing remains significant and the integrity of the Island's financial services sector including insurance and pensions businesses depends on the reputation that it functions within a framework that is compliant with international standards of regulation.

Anti-money laundering initiatives have been a cornerstone of the fight against serious crime on a global level since the late 1980s. The fundamental objective of this effort is to ensure that criminal misuse of the financial system is detected and defeated through the application of consistently applied strong AML/CFT procedures and controls.

If funds from criminal activity can be easily processed through a particular institution – either because of poor AML/CFT procedures and controls or collusion by its employees or directors – the institution could be drawn into active complicity with criminals and become part of the criminal network itself.

Financial institutions that are exploited in this manner are exposed to reputational risk, financial instability, diminished public confidence, threats to safety and soundness, regulatory penalty and sanctions and direct loss. Also, as it rewards corruption and crime, successful money laundering damages the integrity of the entire society and undermines democracy and the rule of the law.

Combating terrorist financing is a very significant challenge and the proliferation of weapons of mass destruction is a significant security concern. An effective AML/CFT system, in general, is important for addressing terrorist financing, and the consistent and effective implementation of targeted financial sanctions where called for by the UN Security Council or the European Union is also an effective tool in the fight against terrorism and proliferation.

In the Isle of Man the Treasury is responsible for administering United Nations and European Union sanctions regimes. These include sanctions imposed from time to time against specified countries, territories and entities; and also those intended to combat the funding of terrorism. The Treasury has assigned responsibility for the sanctions regimes to its Customs and Excise Division, and the Sanctions Officer in that Division is the relevant person responsible for ensuring regimes and lists of persons subject to restrictions are kept up to date.

The commitment of the Isle of Man Government

As a country with significant interests in global financial markets and with close links to the capital markets of the UK and other international jurisdictions, the Isle of Man attaches great importance to the maintenance of high standards of financial regulation and supervision. In June 2012 the Isle of Man Government issued a public commitment to combating money laundering and the financing of terrorism and a link to this document which sets this out can be found on the website of the Cabinet Office of the Isle of Man Government.

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The regulatory framework with regard to AML/CFT applicable to entities regulated by the Authority

One of the statutory objective's of the Authority is to reduce, to the extent possible, the risk for any insurance or pensions business to be used in connection with the commission of financial crime.

The legislative money laundering and terrorist financing requirements applying to all entities regulated by the Authority are as defined in the Money Laundering and Terrorist Financing Code 2013 (the "Code") and are:

- "(a) section 9 of the Prevention of Terrorism Act 1990;*
- (b) sections 7 to 11 and section 14 of the Anti-Terrorism and Crime Act 2003;*
- (c) part 3 of the Proceeds of Crime 2008;*
- (d) part 2 of the Terrorism (Finance) Act 2009;*
- (e) part 1 of the Terrorist Asset-Freezing Etc Act 2010 (an Act of Parliament (c.38)) as it has effect in the Island; and*
- (f) the Code,*

and includes, in the case of anything done otherwise than in the Island, anything that would constitute an offence under the provisions specified in paragraphs (a) to (e) if done in the Island."

At the beginning of the year under review, the Money Laundering and Terrorist Financing Code 2013 was issued by the Department of Home Affairs under the Proceeds of Crime Act 2008 and the Terrorism (Finance) Act 2009.

This Code sets out the minimum standards required of all relevant businesses (as defined in schedule 4 to the Proceeds of Crime Act 2008), which includes all entities which are regulated by the Authority, in relation to reducing the risk of a relevant business being used to launder the proceeds of crime or to assist in the financing of terrorism activities.

The Authority's AML/CFT regulatory framework augments these provisions with regulations and guidance notes on the prevention of money laundering and countering the financing of terrorism imposing additional requirements on persons reg-

ulated under the Insurance Act 2008, in addition to the requirements of the Code.

Insurance (Anti-Money Laundering) Regulations 2008 and Guidance Notes on Anti-Money Laundering and Preventing the Financing of Terrorism – for Insurers (Long Term Business)

All entities regulated by the Authority are relevant businesses for the purposes of the Money Laundering and Terrorist Financing Code 2013. In addition, the Authority has also issued the Insurance (Anti-Money Laundering) Regulations 2008 with which all Isle of Man insurer must comply. Binding guidance in relation to the AML/CFT requirements in respect of life insurers is also provided under the Anti-Money Laundering and Preventing the Financing of Terrorism – for Insurers (Long Term Business) issued by the Authority in 2008.

Whilst a breach of the Insurance (Anti-Money Laundering) Regulations 2008 is an offence, a breach of the Guidance Notes is not, but under the provisions of the Insurance Act 2008, a breach of binding guidance, such as the Guidance Notes, enables the Supervisor to take such supervisory action as the Supervisor believes to be appropriate and proportionate in the event of a failure to observe any provision of binding Guidance.

Financial and economic sanctions

In addition to the industry specific regulations and binding guidance issued by the Authority there is a responsibility for all persons and entities in the Island to be aware of the restrictions imposed by the various financial and economic sanction regimes as issued by the Sanctions Officer of the Customs and Excise Division.

There is a particular requirement for regulated entities to be aware of them in the context of carrying out due diligence checks on existing and prospective clients. However, many of the restrictions imposed by the sanctions regimes impinge most directly on financial institutions, including banks and insurance companies which would be required to freeze assets they control on behalf of those affected by the regimes.

Under the sanctions regime if any person in the Island is aware of the presence of funds or other assets owned or controlled by, or on behalf of, a person or entity on any sanctions list they should notify the Sanctions Officer.

COMBATING FINANCIAL CRIME

Enforcement and regulatory sanctions

Under the Insurance Act 2008 and the Retirement Benefits Schemes Act 2000 (together "the Acts") the Supervisor has the power to enforce supervisory provisions in respect of a breach of the Acts or any regulation or binding guidance made under them, including those in respect of AML/CFT. There are various penalties available to the Supervisor to use for enforcement and sanctions, enabling the Supervisor to take appropriate and proportionate action as necessary.

The Insurance and Pensions Authority assesses the compliance by individual regulated entities with their obligations under the money laundering and terrorist financing requirements through its programme of regular on-site inspections and information or intelligence received by it. These inspections may take the format of a routine AML/CFT focussed visit or desk based questionnaires enabling particular segments of the market to be simultaneously analysed with follow up inspections, meetings or remedial work being scheduled where required.

AML Strategic Group and AML/CFT Technical Group

Following the 2008 / 2009 FSAP report on the Isle of Man, the Isle of Man Government established an Anti-Money Laundering Strategic Group which is responsible for overseeing AML/CFT developments at a senior level and at which the Insurance and Pensions Authority is represented.

In addition, the Authority is represented at the Anti-Money Laundering and Countering the Financing of Terrorism Technical Group. This group is made up of representatives from various government departments and statutory boards and is responsible for progressing the Island's response to the recommendations made by the IMF. The Technical Group reports to the AML Strategic Group. The Isle of Man Government and the Authority are committed to continually reviewing the Island's legislation and regulations against applicable international standards.

In the period under review work commenced on the National Risk Assessment of the Island whereby the Isle of Man will seek to identify, assess and understand the risks of money laundering and terrorist financing faced by the Island, and then adopt appropriate measures to mitigate the identified risks. This risk based approach should enable the Island to target resources more effectively and apply preventative measures that are commensurate to the nature of risks.

Further the Authority, together with the Financial Supervision Commission, the Attorney General's Chambers and the Financial Crime Unit participates in regular meetings held with the authorities of Jersey and Guernsey to discuss AML/CFT

"This risk based approach should enable the Island to target resources more effectively and apply preventative measures that are commensurate to the nature of risks"

matters of mutual interest.

External assessment and evaluation

On the 10 October 2012 the Council of Europe's Committee of Ministers passed a resolution authorising the participation of the Isle of Man in the mutual evaluation process and procedures of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism ("MONEYVAL").

This is especially important as membership allows the Isle of Man to participate in MONEYVAL's evaluation and follow-up procedures and future detailed assessments of the Island's AML/CFT framework will be undertaken by MONEYVAL.

The Isle of Man's first 3rd round written progress report outlining progress made by the Isle of Man to implement recommendations previously identified by the IMF, was presented and adopted at the MONEYVAL Plenary in September 2013 and published on MONEYVAL's website, this report concludes that the Isle of Man has made 'considerable progress' in addressing issues identified in the International Monetary Fund's assessment of the Island in 2009.

Joint Anti-Money Laundering Advisory Group

The Authority is one of the three rotating Chairs of the Joint Anti-Money Laundering Advisory Group ("JAMLAG") which is a group consisting of representatives both from Government and industry bodies set up to facilitate dialogue on AML/CFT matters. This advisory group has been used extensively in the consultation process for AML/CFT legislation.

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Corporate Governance

The Authority is committed to operating and maintaining effective procedures and policies supporting sound corporate governance. In doing this the Authority applies the provisions of the Isle of Man Government's Corporate Governance Principles and Code of Conduct. In the interests of ensuring the proper and effective operation of the Authority, this code requires there to be in place a framework governing activity and ensuring that:

- decisions are taken properly;
- channels of communication are open;
- performance is monitored; and
- standards are upheld.

Corporate governance is a broad concept and aims to encompass the structures and processes governing all of the activity of the Authority, including aspects relating to its risk management and internal control, as well as its focus on the needs of all of its stakeholders.

As part of its strategy for maintaining high standards of governance, the Authority will continue to consult with all stakeholders on matters of regulatory or legislative developments and will continue to foster an environment in which open and constructive dialogue with relevant industry organisations is conducted to the greatest possible extent.

The Authority undertakes periodic reviews of its risk profile and is required to provide an annual Statement of Internal Control to support the findings of its internal control assessment procedures. The effectiveness of the internal control environment is periodically tested to ensure that the Authority addresses any threats it may face in the performance of its strategic and regulatory objectives.

The Authority's corporate governance procedures are designed to ensure high levels of integrity and openness in the decisions made by the Board. To support this a register of Members' interests is maintained in order to help identify and facilitate the management of any potential conflicts of interest. Appropriate procedures are in place to manage such conflicts where they may arise. All decisions and matters before the Board are minuted.

The Board of the Authority

The Board of the Insurance and Pensions Authority is appointed by the Treasury, subject to the approval of Tynwald, for a period of 5 years.

The current Board of the Authority was approved by Tynwald at its sitting in February 2012.

The functions of the Board are set out in Schedule 1 to the Insurance Act 2008. The Board is tasked with providing guidance and directions to its Chief Executive in the exercise or performance of powers provided to him by statute and in other situations as it sees fit.

The Board meets, on average, once every six weeks, with additional ad hoc meetings as required. In respect of the year ended 31st March 2014, the board met on nine occasions.

Accountability

An important and integral aspect of the effectiveness of any supervisory regime is the independence of the regulator from political influence. However, such independence has to be exercised within parameters that are clearly understood and to assist this process the Authority and the Treasury have entered into a Memorandum of Understanding. The MoU sets out the basis on which the Authority is accountable to Treasury for its actions and clarifies the circumstances in which information is shared between the two bodies.

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THE BOARD OF THE AUTHORITY



David Stacey FCII

Mr Stacey joined the board of the Authority in April 2012. Prior to his retirement from full-time employment in 2009 he was managing director of Tower Insurance Company Limited and had previously spent his career in various senior management roles within RSA Insurance Group, Tower's parent.

He is a Fellow of the Chartered Insurance Institute and a Chartered Insurer, and holds the Institute of Directors' Diploma in Company Direction. He is a non-executive director of a number of companies.

Lillian Boyle LLB, FCII, Chartered FCSI, TEP

Ms Boyle was appointed as a Member of the Authority in April 2012. She is a lawyer and a Chartered Insurer. A former President of the UK Chartered Insurance Institute and Chair of its Audit Committee, she was previously Managing Director of Scottish Provident International.

She is currently a member of the Conduct Committee of the UK Financial Reporting Council and sits on a variety of boards including investment and financial services companies, 3rd Sector and higher education organisations.

David Vick ACII

Mr Vick was appointed Chief Executive of the Insurance and Pensions Authority in 2002, having joined the Authority in 1989. He previously worked for one of the Island's captive insurance management companies.

He is an Associate of the Chartered Insurance Institute and a Chartered Insurance Practitioner, and is a past president of the Isle of Man Insurance and Financial Services Institute.

Peter Pell-Hiley FCA, BA (Hons) Econ.

A member of the Insurance and Pensions Authority since June 2007, Mr Pell-Hiley was appointed as Chairman with effect from 1 April 2012. He is an economics graduate of Exeter University and a Fellow of the Institute of Chartered Accountants in England and Wales. He is former senior partner of KPMG in the Isle of Man.

Bryan Cooper FCMA

Mr Cooper is a Fellow of the Chartered Institute of Management Accountants whose career was with Sedgwick Risk Management Services, with particular emphasis on captive management both within the British Isles and internationally. He has been a member of the Insurance and Pensions Authority since 1996.

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OFFICERS OF THE AUTHORITY

Chief Executive



David Vick

Chief Executive

As Chief Executive of the Insurance and Pensions Authority, Mr Vick exercises the functions of the Supervisor under the Insurance Act 2008 and the Retirement Benefits Schemes Act 2000.

Supervision



Francesca Signorio-Hooper
Head of Supervision

Life Assurance

Lawrence Horner
Regulatory Manager

Daniel Jones
Regulatory Officer

Non Life

Wendy Sayer
Regulatory Manager

Danny Hall
Accountant

Jennifer Elliott
Regulatory Assistant

Pensions

Andrew Pladgeman
Regulatory Manager

Oriana Hills
Regulatory Officer

Sarah Galovics
Regulatory Officer

AML / CFT

Ali Ansari
Regulatory Manager

Actuarial



Neil Taverner
Senior Actuary

Brian Manyanga
Actuary

Jess Brown
Actuarial Student

OFFICERS OF THE AUTHORITY

Policy



Alan Rowe
Senior Manager

Paul Ellison
Manager

Cheryl McGinley
Manager

Administration

Cath Douglas
Executive Secretary

Dianne McGowan
Receptionist

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FINANCIAL AND OPERATIONS REPORT

Financial and operational report

Funding and resources

The operating expenditure of the Insurance and Pensions Authority is funded by the Isle of Man Government from general revenue and offset against the authorisation and registration fee income charged to regulated entities.

In setting the level of fees charged to licenceholders the Authority has regard to the need to balance regulatory costs with the desirability of the level of those fees not being an insurmountable barrier to new entrants or the retention of existing business.

In order to fund the increased costs arising from the work necessary to develop the new insurance supervisory framework, the aggregate annual regulatory fees payable in the period were increased by 31%, with the greatest increases being applied to the life assurance sector. In addition a one off levy will be applied in 2014/15 to both the life insurers and the insurance managers. In setting these fees and levies the Authority made a commitment to its licenceholders that, to the extent that the Authority is able, it will not seek to apply more than inflationary increases to the annual fees payable by its licenceholders until at least 2016/17.

On 1 April 2013, the Treasury granted the Authority £471,000. This contribution, together with the operational headcount are agreed in advance as part of the Government's overall budget process and the Authority is committed to working to ensure that it operates in a manner that is as cost-efficient as possible.

Employee costs and resources

Employee costs increased in the year by £171,000 to £869,000, due mainly to the increase in staff headcount from 13 at the beginning of the period to 19 at the period end.

Infrastructure costs

At the beginning of the financial year under review the Department of Infrastructure assumed responsibility for government owned buildings and as a result assumed responsibility for all infrastructure costs including the rent and associated costs of the office space occupied by the Authority. Consequently there is a fall in infrastructure expenditure of £104,000 as compared to the prior year.

Supplies and services

During the year the Authority transferred £350,000 to the Government ICT Fund to fund the development of the new electronic supervisory support database currently being specified.

Overall results

The overall expenditure incurred by the Authority for the year was £1,767,870 (2012/13: £1,392,859), leading to a net surplus for the year of £211,000 (2012/13: deficit of £242,000).

2014/15 Outlook

Throughout 2014/15 work will continue on the development of the ICRG framework and the budgeted expenditure to meet that work together with the ongoing supervision under the existing framework is £1,927,500. These costs will be offset by budgeted annual fee income of £1,443,000 and an additional £762,500 being raised by the application of the one off levy as detailed above resulting in an anticipated surplus of £278,000.

INCOME AND EXPENDITURE ACCOUNT

Income and expenditure account for the year ended 31 March 2014

	Year ended 31 Mar 2014	Year ended 31 Mar 2013
INCOME	£	£
Fee income		
Authorised insurers	1,234,652	906,243
Insurance managers	64,550	62,170
Insurance permit holders	45,965	37,635
General insurance intermediaries	61,014	45,793
Pension scheme administrators	<u>101,347</u>	<u>99,092</u>
	1,507,528	1,150,933
Treasury grant	471,000	-
Total Income	1,978,528	1,150,933
EXPENDITURE		
Employee costs		
Salaries	963,604	852,082
Travel and subsistence	7,998	9,382
Other	<u>68,084</u>	<u>8,004</u>
	1,039,686	869,468
Infrastructure costs		
Rent and rates	925	94,440
Other	<u>(611)</u>	<u>9,371</u>
	314	103,811
Supplies and services		
Professional fees	237,985	288,568
Members fees and expenses	69,792	68,661
Other	<u>420,093</u>	<u>62,329</u>
	727,870	419,580
Total expenditure	1,767,870	1,392,859
SURPLUS / (DEFICIT) FOR THE YEAR	210,658	(241,926)

APPENDIX

USEFUL CONTACTS

Useful contacts

The following contact information may prove useful to users of this report. Further information can also be obtained by contacting the Authority directly:

Isle of Man — Supervisory Bodies and Government Departments

Insurance and Pensions Authority	Ground Floor Finch Hill House Bucks Road Douglas IM1 3DF
Web: www.ipa.im Tel: +44 (0) 1624 646000	
Financial Supervision Commission	PO Box 58 Finch Hill House Bucks Road Douglas IM99 1DT
Web: www.gov.im/fsc Tel: +44 (0) 1624 689300	
Isle of Man Government Companies Registry	PO Box 345 St George's Court Upper Church Street Douglas IM99 2QS
Web: www.gov.im/ded/companies Tel: +44 (0) 1624 689389	
Isle of Man Government Department of Economic Development	St George's Court Upper Church Street Douglas IM1 1EX
Web: www.gov.im/ded Tel: +44 (0) 1624 686400	
Financial Services Ombudsman	Government Buildings Lord Street Douglas IM1 1LE
Web: www.gov.im/oft/ombudsman Tel: +44 (0) 1624 686500	
Pensions Ombudsman	11 Belgrave Road London SW1V 1RB
Web: www.pensions-ombudsman.org.uk Tel: +44 (0) 20 7630 2200	
Financial Crime Unit	PO Box 51 Finch Hill House Bucks Road Douglas IM99 2TD
Web: www.gov.im/fcu Tel: +44 (0) 1624 686000	

USEFUL CONTACTS

Isle of Man Industry Representative Bodies

Manx Insurance Association	Email: info@mia.org.im
Web: www.mia.org.im Tel: +44 (0) 1624 681836	
Isle of Man Captive Association	Secretariat: Langdale Gansey Port St Mary Isle of Man
Email: ccrowtherinsurance@gmail.com Web: www.iomcaptive.com Tel: +44 (0) 1624 832284	
Isle of Man Financial Planners & Insurance Brokers Association	c/o 2 Olafs Close Governors Hill Douglas IM2 7AR
Web: www.fpiba.com	
Isle of Man Association of Pension Scheme Providers	Secretariat: Millennium House Victoria Road Douglas IM2 4RW
Tel: +44 (0) 1624 631084	
Manx Actuarial Society	Secretariat: Zurich International 43-51 Athol Street Douglas IM99 1EF
Tel: +44 (0) 1624 691334	
Association of International Life Offices	Secretariat: PO Box 1747 L-1017 Luxembourg
Web: www.ailo.org Tel: +352 442 659	

USEFUL CONTACTS

International Supervisory Representative Bodies

International Association of Insurance Supervisors	c/o Bank for International Settlements CH-4002 Basel Switzerland
Web: www.iaisweb.org Tel: +41 61 225 7300	
International Organisation of Pensions Supervisors	2, Rue André Pascal F-75775 Paris, Cedex 16 France
Web: www.iopsweb.org Tel: +33 145 24 14 52	
Group of International Insurance Centre Supervisors	Secretariat: Gibraltar Financial Services Commission PO Box 940, Suite 3, Ground Floor Atlantic Suites, Europort Avenue Gibraltar
Web: www.ogis.net	



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