

**2015 ANNUAL REPORT**  
OF THE  
ISLE OF MAN  
INSURANCE AND PENSIONS AUTHORITY



## CONTENTS

|  |           |
|--|-----------|
| <b>FOREWORD</b>                                  | <b>4</b>  |
| <b>REGULATORY OBJECTIVES</b>                     | <b>6</b>  |
| <b>REGULATORY DEVELOPMENTS</b>                   |           |
| Updating the framework for insurance supervision | 8         |
| Solvency II                                      | 12        |
| Pensions supervisory framework                   | 14        |
| <b>SECTOR REVIEW AND PERFORMANCE</b>             |           |
| Sector size and performance                      | 16        |
| Authorisations and registrations                 | 18        |
| Insurance review                                 | 20        |
| Pensions review                                  | 22        |
| <b>FUNCTIONS OF THE AUTHORITY</b>                | <b>24</b> |
| <b>SUPERVISION</b>                               |           |
| Supervisory approach                             | 26        |
| Co-operation and co-ordination in Supervision    | 30        |
| Combating financial crime                        | 34        |
| <b>INSURANCE AND PENSIONS AUTHORITY</b>          |           |
| Corporate governance                             | 38        |
| Board composition                                | 40        |
| Organisational structure                         | 42        |
| Financial and operational report                 | 45        |
| <b>APPENDIX—USEFUL CONTACTS</b>                  | <b>48</b> |

# **FOREWORD**

## **FROM THE CHAIRMAN**

## FOREWORD



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

*"The pace of this change has become even greater in recent years and this looks set to continue for the foreseeable future"*

I am pleased to introduce the Insurance and Pensions Authority's annual report for the year 2014-15. This will be the last report of the Authority as, with effect from 1 November 2015 the Insurance and Pensions Authority will merge with the Financial Supervision Commission to create a new statutory board, the Isle of Man Financial Services Authority ('IOMFSA').

In the meantime, and as in previous years, this report describes the functions of the Authority and the way in which it carries out those functions. It also comments on the progress made over the period under review towards creating and implementing an updated regulatory framework for insurance business. In addition, it describes the Authority's contribution to the work in relation to the creation of the Isle of Man's first National Risk Assessment for AML/CFT purposes in advance of the assessment of the Island's framework in this regard in 2016 by MONEYVAL.

The regulation of financial services internationally has changed significantly since the Authority was established, first as the Insurance Authority in 1986 and then continuing as the Insurance and Pensions Authority from 1997. The pace of this change has become even greater in recent years and this looks set to continue for the foreseeable future. In addition, the Isle of Man has had to respond to many fiscal and budgetary challenges and has embarked on an extensive programme of organisational change to ensure that the structure of its government and administration remains appropriate for this changed environment.

The resultant decision to create a new, unified, regulator for financial services will ensure that the breadth of all these challenges, regulatory and fiscal, can be addressed on a consistent and cost-effective basis. This should result in benefits to the new organisation, the entities that it regulates, the customers of those entities and to the Isle of Man itself.

## FOREWORD

However, it will also result in a period of some uncertainty as the new structure settles into place. The board of the Authority remains committed to carrying out the programme of regulation and reform on which the Authority has been working and has been encouraged by the Government's commitment throughout the planning of the merger that this programme should not be 'blown off course' by it. Whilst it will be for the incoming board of the IOMFSA to determine the new organisation's priorities, the significance of the insurance and pensions sectors to the Island's economy and the importance of implementing the updated regulatory framework for it will be a powerful incentive for maintaining the momentum of this project.

As this report will also be the last one with me as Chairman of the Authority, I would like to put on record that it has been a privilege to be involved in the regulation and development of the Isle of Man's insurance and pensions sectors.

Of course I cannot let the opportunity slip by without formally acknowledging David Vick's significant contribution to the success of the Islands insurance and pensions sectors. David retired in September 2015 after over 31 years in the industry the majority of which was dedicated to the development of the Isle of Man's regulatory framework for insurance and pensions business and in the Island's development as an international centre for such activity, which remain vital to the economic well-being of the Island. David's leadership as Chief Executive of the IPA has been central to the Island maintaining its position as a respected international jurisdiction for insurance and pensions business and we wish him well in his retirement.

David was supported in his role as Chief Executive by a strong and dedicated team of officers with considerable experience of, and expertise in, the sectors we regulate. I would like to pass on the gratitude of the Board to all the members of the

*"... the significance of the insurance and pensions sectors to the Island's economy and the importance of implementing the updated regulatory framework for it will be a powerful incentive for maintaining the momentum of this project"*

Authority's team for their continued hard work not only over the last twelve months but also for the focus they have maintained during the recent period of uncertainty. The IOMFSA is inheriting from the Authority a strong team of dedicated professionals and I wish them every success in the new organisation.

I would also like to express my thanks and appreciation to my fellow board members, Lillian Boyle and David Stacey who have been appointed to serve on the board of the IOMFSA, and Bryan Cooper who has served on the board of the Authority for almost 20 years and retires on 31 October 2015. His experience and counsel have been invaluable.

**Peter Pell-Hiley**  
Chairman

## 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.

The Authority commenced its work in this area in 2013 with publication of the Authority's 'Roadmap for updating the Isle of Man's regulatory framework for insurance business', which set out the development approach to be adopted in relation to the key workstreams of the project.

The Authority has published two further updates to the Roadmap in 2014 and the summer of 2015. These updates provide information on the progress and work undertaken over the prior twelve months, with the 2015 Roadmap looking 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 its first quantitative impact study ("QIS1") in relation to life insurers in September 2014, with reporting required by the end of March 2015.

The objectives of the QIS1 exercise were to:

- provide both the IPA and individual life insurers with detailed information on the quantitative impact on the solvency balance sheet of the companies in question under an initial specification of the SCSM, as compared to the current solvency position;
- assess to what extent the initial specification, as detailed in the consultation paper issued in July 2014 and detailed instructions issued in September 2014, were appropriate for the Island's life insurers and aligned with the principles and calibration targets set out in those documents, and serve as a basis for further refinement of the specification;
- encourage insurers to prepare for the introduction of the SCSM and to identify areas where their internal processes, procedures and infrastructure might need to be enhanced, including in particular, data collection processes;
- provide the basis for an ongoing dialogue between the IPA and life insurers in preparation for the new supervisory regime.

The detail of the results submitted were analysed to identify those areas that may need to be amended for the purpose of the second quantitative impact study ("QIS2"). A report providing feedback on QIS1 was issued in August 2015 and is available on the Authority's website.

Instructions for QIS2 will be issued around the time of the compilation of this report, in October 2015. Both life and non-life insurers will be required to participate in QIS2, with a simplified model currently being developed for the non-life sector.

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

# UPDATING THE FRAMEWORK FOR INSURANCE SUPERVISION

business strategy, financial position, legal and regulatory position and the risk exposure of the group as a whole.

Whilst the IPA currently participates in group supervision arrangements and attends supervisory colleges where it is appropriate to do so, additional powers will be required to enable it to act as group-wide supervisor for the limited number of insurers where the group headquarters, or the most significant insurance operations of the group, are based on the Island. These additional powers will necessitate amendments to both primary and secondary legislation, with the former being included in the Insurance (Amendment) Bill 2016, which the Authority commenced consultation on in October 2015.

Our original schedule for this work was revised (to a later date) to enable us to take account of the review by the IAIS of the ICPs relating to group supervision. Although the final changes will not be approved until the Annual General Meeting of the IAIS in November 2015, we now have more certainty on the changes which enables us to be clearer on our proposals in this area

## **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.

## **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.

In the period since the publication of the Authority's previous annual report, the Authority issued a discussion paper on conduct of business matters setting out the principles for a

new conduct of business framework which was followed by a consultation in July 2015 on a proposed Conduct of Business Code for life assurance business.

## **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 and bring certain 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.

As noted in earlier sections, the Authority issued a consultation during the period under review on the Insurance (Amendment) Bill 2016, that sets out the proposed amendments to the Insurance Act 2008 needed to take account of developments being progressed across the Authority's regulatory framework in accordance with international insurance regulatory standards.

The Authority looks forward to receiving feedback from industry as this work develops.

## **Industry participation**

Engagement from the Isle of Man's insurance industry and other relevant stakeholders remains vital to the successful implementation of the new framework and the Authority is committed to maintaining 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.

# **REGULATORY DEVELOPMENTS**

UPDATING THE FRAMEWORK FOR  
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 establishes a revised set of EU-wide solvency and capital requirements, governance and risk management standards, supervisory oversight process and disclosure requirements and comes into effect for all EU insurers on 1<sup>st</sup> 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' applies.

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

| 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 |

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.

# **REGULATORY DEVELOPMENTS**

UPDATING THE FRAMEWORK FOR

INSURANCE SUPERVISION

SOLVENCY II

**PENSIONS SUPERVISORY FRAMEWORK**

## PENSIONS SUPERVISORY FRAMEWORK

The Isle of Man's pensions sector experienced significant growth during the period under review, with funds under management attributable to pensions rising from £2.6bn to £7.0bn over the period. This significant growth is attributable in the main to a small number of large occupational schemes transferring their pensions to the Island.

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 remains a significant contributor to the Isle of Man economy, contributing 14.6% (Source: 2013/14 National Income Accounts) of the Island's gross domestic product an increase of 3% on the prior year.

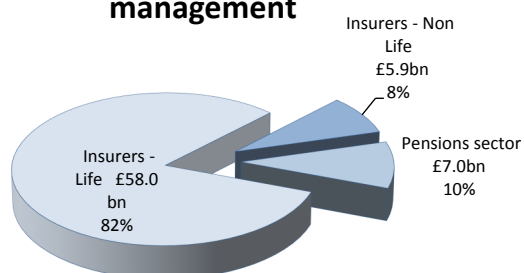
2014 saw significant growth being achieved in the assets under management within the Island's insurance and pensions sector increasing by almost 12% on the prior year position to £71.0 billion. Whilst much of this growth is attributable to the continued strengthening of the Island pensions sector, growth was also experienced across both the life and non-life insurance industries also.

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, and the assets managed within these arrangements represent 10% of the total sector assets, up from 3.8% the prior year.

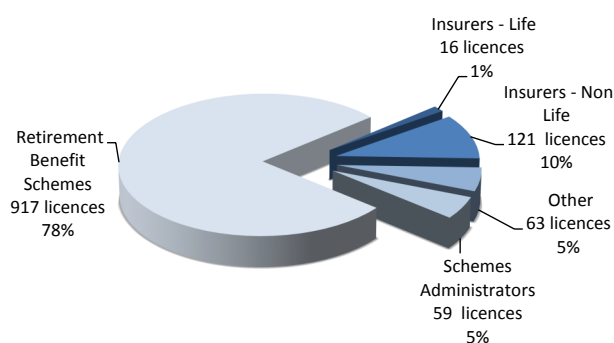
At 31 March 2015 the number of authorisations in the life sector represented only 1% of the licences in issue, however this sector continues to show strong and sustained growth with assets under management rising to £58.0bn at the period end. This sector continues to experience consolidation as the smaller 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 increased slightly to £5.9 billion, representing 8% of the industry sector total.

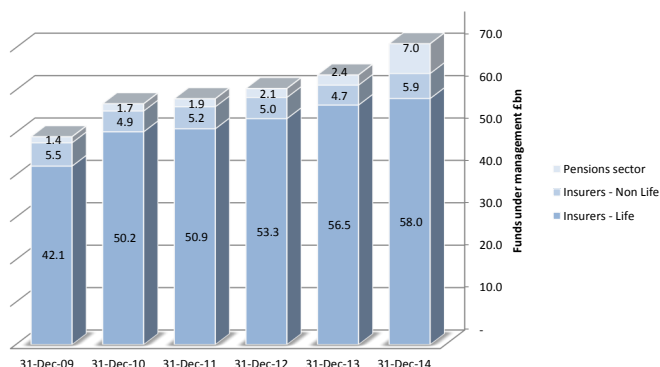
**Combined sector - funds under management**



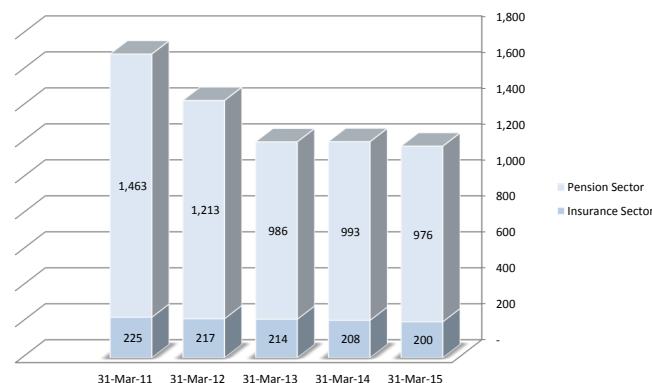
**Combined sector - number of licences**



**Combined sector funds under management**



**Combined sector - number of licences**





# **SECTOR REVIEW AND PERFORMANCE**

SECTOR SIZE AND PERFORMANCE

**AUTHORISATIONS AND REGISTRATIONS**

INSURANCE SECTOR REVIEW

PENSIONS SECTOR REVIEW

# 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 2015 saw a net decline of eight insurance sector authorisations and registrations. This is largely due to the continuing trend of consolidation throughout the sector.

Seven non-life insurers surrendered their authorisations following the termination and settlement of their insurance liabilities in full with six new non-life insurers were granted registration. This marginal decline is largely due to older companies reaching the end of their life cycle. The Island continues to attract new non life insurers from blue chip organisations and remains committed to providing a stable business environment with a proportionate regulatory framework for captive business.

### Summary of registrations

|                                  | 31 Mar 15  | 31 Mar 14  |
|----------------------------------|------------|------------|
| Authorised insurers—Life         | 16         | 16         |
| Authorised insurers—Non Life     | 121        | 122        |
| Permitted insurers               | 16         | 19         |
| Insurance managers               | 22         | 22         |
| General insurance intermediaries | 25         | 29         |
| <b>Total insurance sector</b>    | <b>200</b> | <b>208</b> |

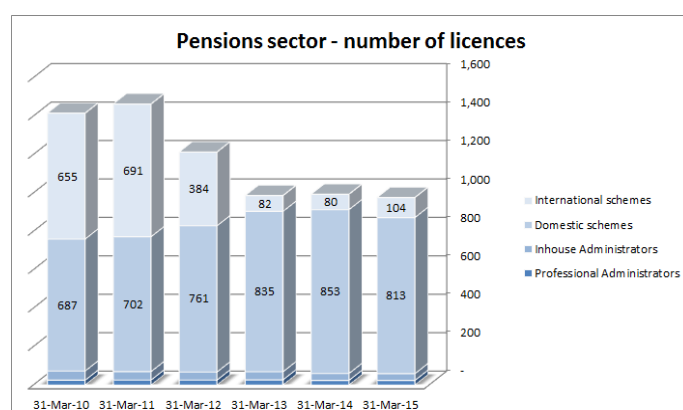
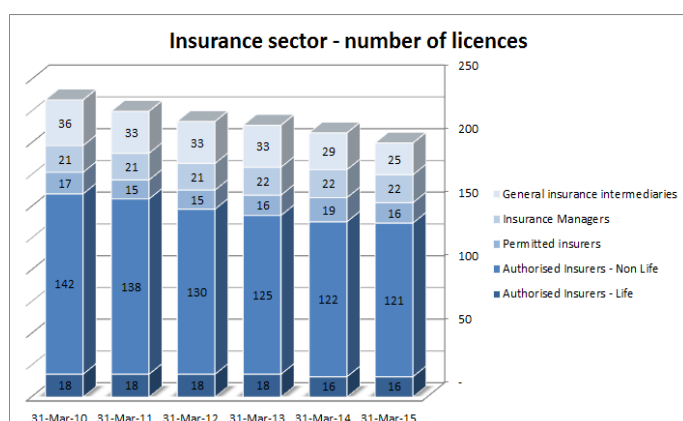
During the year under review the Authority established a new regulatory framework for insurance-linked securities which included the creation of a new class of limited purpose (re)insurer (the 'Insurance Special Purpose Vehicle' or "ISPV"). Whilst, to date, no registrations for ISPV's have been effected the local insurance industry expects this framework to attract new business opportunities to the Isle of Man as the framework strengthens the Island's overall risk management proposition.

### Pensions sector

The Authority has seen strong growth in the pensions sector with a net increase of 24 new international schemes in the year. This sector continues to grow in significance with a number of large schemes being registered during the period under review increasing funds under management attributable to the pensions sector at 31 March 2015 to over £7.0 billion.

### Summary of registrations

|                              | 31 Mar 15  | 31 Mar 14  |
|------------------------------|------------|------------|
| Professional administrators  | 24         | 24         |
| In-house administrators      | 35         | 36         |
| International schemes        | 104        | 80         |
| Domestic schemes             | 813        | 853        |
| <b>Total pensions sector</b> | <b>976</b> | <b>993</b> |



# **SECTOR REVIEW AND PERFORMANCE**

SECTOR SIZE AND PERFORMANCE  
AUTHORISATIONS AND REGISTRATIONS

**INSURANCE SECTOR REVIEW**

PENSIONS SECTOR REVIEW

# INSURANCE SECTOR REVIEW

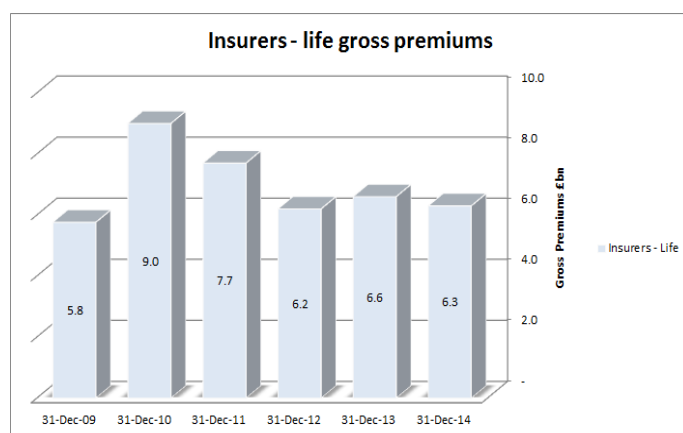
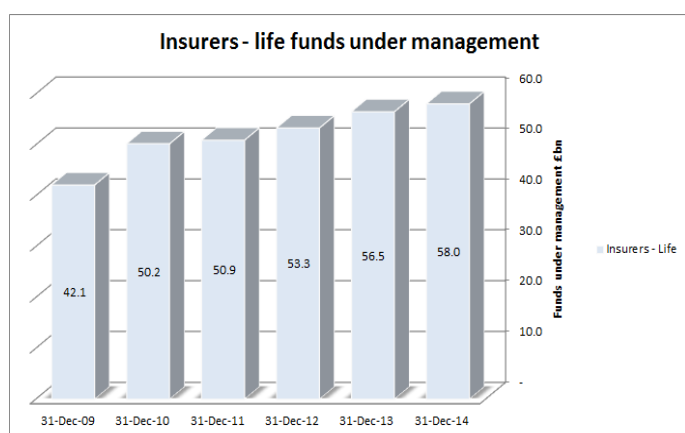
## Long-term insurance business

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 increasing at a similar rate to recent years to £58.0 billion.

Gross premium reduced very marginally on the previous year to £6.3 billion, with the sector demonstrating very consistent results over the last three years. The mix of business continues to reflect the international nature of life insurers headquartered on the Island and the sector remains optimistic about future growth potential in a number of markets.



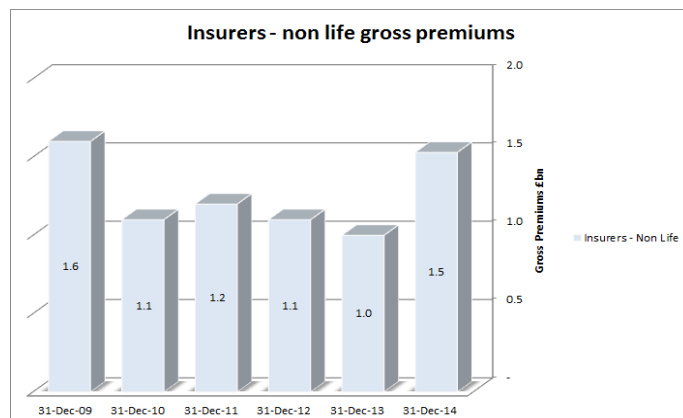
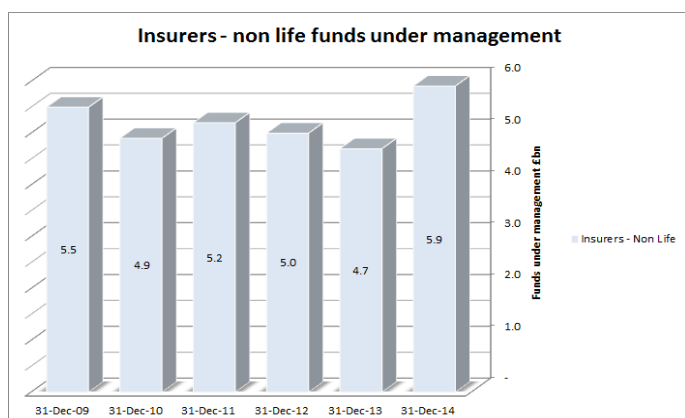
## Non-life insurance business

The non-life sector is represented by non-life authorised insurers (66%), general insurance intermediaries (14%), insurance managers (12%), and permitted insurers (9%). The sector is predominantly represented by captive insurers, in the broadest sense of the term, and 2014 results were encouraging as the market showed a recovery from recent soft market conditions with funds under management to increasing to £5.9 billion at the year end, from £4.7 billion in 2013.

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.

Gross written premiums also rose over the period to £1.5 billion from £1.0 billion in 2013.

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.



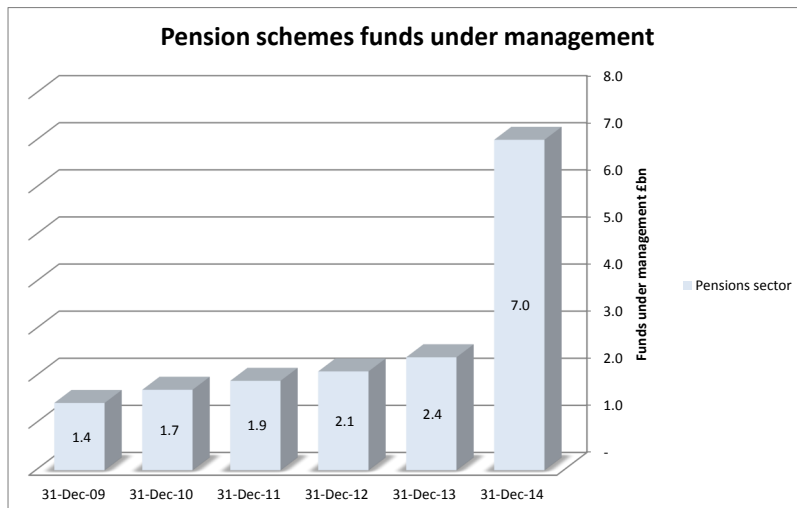
# **SECTOR REVIEW AND PERFORMANCE**

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

## PENSIONS SECTOR REVIEW

### Retirement benefits schemes

The Island's pensions sector demonstrated strong growth throughout the period with pension fund values increasing by 192% to £7.0 billion of assets under management at 31 December 2014. The majority of this growth is attributable to a small number of large international occupational schemes establishing themselves on the Island.



# **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 the 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.



**SUPERVISION**  
SUPERVISORY APPROACH  
CO-OPERATION  
COMBATING FINANCIAL CRIME

# 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 presentation of financial information and potential non-conformity with regulations within the pension scheme annual accounts administered by a single registered schemes administrator.

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.

**SUPERVISION**  
SUPERVISORY APPROACH  
**CO-OPERATION**  
COMBATING FINANCIAL CRIME

## COOPERATION AND COORDINATION IN SUPERVISION

### 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) and the Financial Conduct 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)
- The China Insurance Regulatory Commission of the Peoples Republic of China (25 March 2015)

### 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.

## COOPERATION AND COORDINATION IN SUPERVISION

The following 54 regulatory bodies are signatories to the IAIS MMoU as at the date of publication of this report:

- Australia Prudential Regulation Authority, Australia (23 October 2009)
- Financial Market Authority, Austria (26 February 2010)
- Banque Nationale de Belgique / Nationale Bank van België, Belgium (12 December 2011)
- Financial Services and Markets Authority (FSMA), Belgium (19 May 2015)
- Bermuda Monetary Authority, Bermuda (25 June 2009)
- Superintendencia de Seguros Privados (SUSEP), Brazil (14 March 2014)
- Financial Services Commission (FSC), British Virgin Islands (17 June 2011)
- Autorité des marchés financiers, Canada (Québec) (27 March 2015)
- Office of the Superintendent of Financial Institutions, Canada (25 July 2012)
- Cayman Islands Monetary Authority, Cayman Islands (17 June 2011)
- Superintendencia de Valores y Seguros, Chile (14 June 2012)
- Office of the Commissioner of Insurance, China Hong Kong (6 June 2012)
- Financial Supervisory Commission, Chinese Taipei (25 June 2009)
- Autorité de contrôle prudentiel - ACP, France (23 October 2009)
- Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Germany (25 June 2009)
- Financial Services Commission, Gibraltar (22 April 2015)
- Guernsey Financial Services Commission, Guernsey (28 October 2010)
- Insurance Regulatory and Development Authority, India (1 May 2013)
- Central Bank of Ireland, Ireland (14 February 2013)
- Isle of Man Insurance and Pensions Authority, Isle of Man (10 July 2012)
- Capital Markets, Insurance and Savings Division, Israel (29 November 2013)
- Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collectivo (ISVAP), Italy (26 November 2012)
- Financial Services Agency, Japan (17 June 2011)
- Jersey Financial Services Commission, Jersey (21 October 2010)
- Financial Market Authority, Liechtenstein (18 September 2012)
- Insurance Supervisory Commission of the Republic of Lithuania, Lithuania (27 September 2011)
- Commissariat aux assurances, Luxembourg (24 July 2012)
- Autoridade Monetaria de Macau, Macau (2 November 2011)
- Bank Negara Malaysia, Malaysia (28 April 2015)
- Malta Financial Services Authority, Malta (27 October 2010)
- Financial Services Commission, Mauritius (20 December 2013)
- Comision Nacional de Seguros y Fianzas, Mexico (16 June 2010)
- De Nederlandsche Bank, The Netherlands (13 November 2009)
- Reserve Bank of New Zealand, New Zealand (January 2015)
- Komisja Nadzoru Finansowego - KNF (Polish Financial Supervisory Authority), Poland (31 July 2012)
- Qatar Financial Centre Regulatory Authority, Qatar (15 June 2012)
- Insurance Supervisory Commission, Romania (26 February 2010)
- Monetary Authority of Singapore, Singapore (25 June 2010)
- National Bank of Slovakia, Slovakia (13 April 2015)
- Swiss Financial Market Supervisory Authority (FINMA), Switzerland (22 September 2011)
- Prime Ministry, Undersecretariat of Treasury of Turkey, Turkey (20 March 2013)
- Dubai Financial Services Authority (DFSA), United Arab Emirates (28 October 2010)
- Financial Services Authority, United Kingdom (21 June 2012)
- California Department of Insurance, California, USA (14 August 2014)
- Connecticut Department of Insurance, USA (20 February 2012)
- Delaware Department of Insurance, USA (21 April 2015)
- Iowa Division of Insurance, Iowa (March 2015)
- Maine Bureau of Insurance, Maine (March 2015)
- Department of Insurance and Financial Services, Michigan (January 2015)
- Missouri Department of Insurance, Financial Institutions & Professional Registration, Missouri (March 2015)
- Nebraska Department of Insurance, USA (12 April 2013)
- Pennsylvania Insurance Department, USA (13 November 2014)
- State Corporation Commission, Bureau of Insurance, Virginia, USA (14 August 2014)
- Washington State Office of the Insurance Commissioner, USA (18 September 2012)



**SUPERVISION**  
SUPERVISORY APPROACH  
CO-OPERATION  
**COMBATING FINANCIAL CRIME**

## 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.

## COMBATING FINANCIAL CRIME

### **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 Anti-Money Laundering and countering the Financing of Terrorism Code 2015 (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) parts 2,3 and 4 of the Terrorism and Other Crime (Financial Restrictions) Act 2014;*
- (d) part 3 of the Proceeds of Crime 2008; and*
- (e) 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."*

During the year under review, the Money Laundering and Terrorist Financing Code 2015 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 regulated 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.

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 matters of mutual interest.

*"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"*

### **National Risk Assessment**

During the year under review the Authority participated in the work of the Cabinet Office in drafting the Islands first National Risk Assessment of vulnerability to money laundering and the financing of terrorism. This work involved contribution from a broad cross section of Government agencies and departments as well as participation by leading industry experts and advisors.

This important work will enable the Island to 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.

The work on the Island's Risk Assessment will ensure the Island is well placed when it is assessed by MONEYVAL in 2016 for compliance against the revised FATF Recommendations.

### **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.

**INSURANCE AND PENSIONS AUTHORITY**  
CORPORATE GOVERNANCE  
BOARD COMPOSITION  
ORGANISATIONAL STRUCTURE  
FINANCIAL AND OPERATIONAL REPORT

# CORPORATE GOVERNANCE

## 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 eleven 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.

**INSURANCE AND PENSIONS AUTHORITY**  
CORPORATE GOVERNANCE  
**BOARD COMPOSITION**  
ORGANISATIONAL STRUCTURE  
FINANCIAL AND OPERATIONAL REPORT



## 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. Mr Vick retired from his position on 30 September 2015.

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.



**INSURANCE AND PENSIONS AUTHORITY**  
CORPORATE GOVERNANCE  
BOARD COMPOSITION  
**ORGANISATIONAL STRUCTURE**  
FINANCIAL AND OPERATIONAL REPORT

## OFFICERS OF THE AUTHORITY

### Chief Executive



#### David Vick

Chief Executive (retired 30 September 2015)

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

### Actuarial



**Neil Taverner**  
Senior Actuary

**Brian Manyanga**  
Actuary

**Jess Brown**  
Actuary

## OFFICERS OF THE AUTHORITY

### Policy

**Alan Rowe**  
Senior Manager

**Colin Manley**  
Senior Manager

**Paul Ellison**  
Manager

**Cheryl McGinley**  
Manager

**Nicci Igoea**  
Manager

### Administration

**Dianne McGowan**  
Receptionist

# **INSURANCE AND PENSIONS AUTHORITY**

CORPORATE GOVERNANCE

BOARD COMPOSITION

ORGANISATIONAL STRUCTURE

**FINANCIAL AND OPERATIONS REPORT**

# 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, in 2013 the aggregate annual regulatory fees payable were increased by 31%, with the greatest increases being applied to the life assurance sector. In addition a one off levy was applied in year under review on 31 December 2014 to both the life assurers 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.

As a result of the one-off levy applied in the year the Authority achieved a surplus of £546,753 contributing to the general revenue of the Island. It is important to understand that this contribution together with the combined impact of the increased fees applied to the insurance and pensions sectors represents advance funding by industry of the increased cost base of the Authority attributable to the development, and thereafter maintenance, of the new regulatory framework.

This can be represented through a notional fund account depicting the additional revenue raised from increased contribution from industry and the utilisation of that additional revenue to meet the enhanced cost base of the Authority.

|                                     | <b>Fund<br/>2012/13<br/>£</b> | <b>Fund<br/>2013/14<br/>£</b> | <b>Fund<br/>2014/15<br/>£</b> |
|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Notional fund b/f                   | 0                             | 0                             | (17,880)                      |
| Additional fees raised              | 0                             | 342,894                       | 1,004,839                     |
| Additional expenditure incurred     | 0                             | (10,774)                      | (220,046)                     |
| Transfer to ICT Fund for new system |                               | (350,000)                     |                               |
| Notional fund c/f                   | <u>0</u>                      | <u>(17,880)</u>               | <u>766,913</u>                |

It continues to be the expectation of the Authority that no further levy will need to be applied to meet the cost of the development of the new framework and that the additional costs arising will be met from the notional fund.

In respect of the year ended 31 March 2015 the Authority received a nil contribution from the Government whereas in the prior year 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 £1,211,151, due to the full year cost of the 19 staff being incurred.

### Supplies and services

During the prior 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 £1,610,131 (2013/14: £1,767,870), leading to a net surplus for the year of £546,753 (2013/14: surplus of £210,658).

### 2015/16 Outlook

Throughout 2015/16 work will continue on the development of the new regulatory framework and the budgeted expenditure attributable to the IPA to meet that work together with the on-going supervision under the existing framework is £1,897,500. These costs will be offset by budgeted annual fee income of £1,495,500 and a grant received from Government attributable to the IPA of £402,000 resulting in an anticipated surplus for the IPA of £nil.

## INCOME AND EXPENDITURE ACCOUNT

### Income and expenditure account for the year ended 31 March 2015

|                                  | Year ended<br>31 Mar 2015 | Year ended<br>31 Mar 2014 |
|----------------------------------|---------------------------|---------------------------|
| INCOME                           | £                         | £                         |
| <b>Fee income</b>                |                           |                           |
| Authorised insurers              | 1,184,895                 | 1,234,652                 |
| Insurance managers               | 64,960                    | 64,550                    |
| Insurance permit holders         | 40,751                    | 45,965                    |
| General insurance intermediaries | 55,120                    | 61,014                    |
| Pension scheme administrators    | <u>98,658</u>             | <u>101,347</u>            |
|                                  | <b>1,444,384</b>          | <b>1,507,528</b>          |
| <b>Additional one-off fee</b>    | <b>712,500</b>            | -                         |
| <b>Treasury grant</b>            | -                         | <b>471,000</b>            |
| <b>Total Income</b>              | <hr/> <b>2,156,884</b>    | <hr/> <b>1,978,528</b>    |
| <b>EXPENDITURE</b>               |                           |                           |
| <b>Employee costs</b>            |                           |                           |
| Salaries                         | 1,190,243                 | 963,604                   |
| Travel and subsistence           | 8,767                     | 7,998                     |
| Other                            | <u>12,141</u>             | <u>68,084</u>             |
|                                  | <b>1,211,151</b>          | <b>1,039,686</b>          |
| <b>Supplies and services</b>     |                           |                           |
| Professional fees                | 248,575                   | 237,985                   |
| Members fees and expenses        | 71,170                    | 69,792                    |
| Other                            | <u>79,235</u>             | <u>420,407</u>            |
|                                  | <b>398,980</b>            | <b>728,184</b>            |
| <b>Total expenditure</b>         | <hr/> <b>1,610,131</b>    | <hr/> <b>1,767,870</b>    |
| <b>SURPLUS FOR THE YEAR</b>      | <hr/> <b>546,753</b>      | <hr/> <b>210,658</b>      |

## 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

|  |   |
|--|---|
| <b>Isle of Man Government<br/>Companies Registry</b>   | PO Box 345<br>St George's Court<br>Upper Church Street<br>Douglas<br>IM99 2QS |
| Web: <a href="http://www.gov.im/ded/companies">www.gov.im/ded/companies</a><br>Tel: +44 (0) 1624 689389            |   |
| <b>Isle of Man Government<br/>Department of Economic Development</b>   | 1st Floor<br>St George's Court<br>Upper Church Street<br>Douglas<br>IM1 1EX   |
| Web: <a href="http://www.gov.im/ded">www.gov.im/ded</a><br>Tel: +44 (0) 1624 686400                                |   |
| <b>Financial Services Ombudsman</b>  | Government Buildings<br>Lord Street<br>Douglas<br>IM1 1LE                     |
| Web: <a href="http://www.gov.im/oft/ombudsman">www.gov.im/oft/ombudsman</a><br>Tel: +44 (0) 1624 686500            |   |
| <b>Pensions Ombudsman</b>  | 11 Belgrave Road<br>London<br>SW1V 1RB  |
| Web: <a href="http://www.pensions-ombudsman.org.uk">www.pensions-ombudsman.org.uk</a><br>Tel: +44 (0) 20 7630 2200 |   |
| <b>Financial Crime Unit</b>  | PO Box 51<br>Finch Hill House<br>Bucks Road<br>Douglas<br>IM99 2TD            |
| Web: <a href="http://www.gov.im/fcu">www.gov.im/fcu</a><br>Tel: +44 (0) 1624 686000                                |   |



## USEFUL CONTACTS

### Isle of Man Industry Representative Bodies

|  |   |
|--|---|
| <b>Manx Insurance Association</b>  | Email: <a href="mailto:info@mia.org.im">info@mia.org.im</a>                       |
| Web: <a href="http://www.mia.org.im">www.mia.org.im</a><br>Tel: +44 (0) 1624 681836  |   |
| <b>Isle of Man Captive Association</b>   | Secretariat:<br>Langdale<br>Ganseay<br>Port St Mary<br>Isle of Man<br>IM9 5LA     |
| Email: <a href="mailto:ccrowtherinsurance@gmail.com">ccrowtherinsurance@gmail.com</a><br>Web: <a href="http://www.iomcaptive.com">www.iomcaptive.com</a><br>Tel: +44 (0) 1624 832284 |   |
| <b>Isle of Man Financial Planners &amp; Insurance Brokers Association</b>  | c/o 2 Olafs Close<br>Governors Hill<br>Douglas<br>IM2 7AR                         |
| Web: <a href="http://www.fpiba.com">www.fpiba.com</a>  |   |
| <b>Isle of Man Association of Pension Scheme Providers</b>   | Secretariat:<br>2a Lord Street<br>Douglas<br>IM99 1HP                             |
| Tel: +44 (0) 1624 631084   |   |
| <b>Manx Actuarial Society</b>  | Secretariat:<br>Zurich International<br>43-51 Athol Street<br>Douglas<br>IM99 1EF |
| Tel: +44 (0) 1624 691334   |   |
| <b>Association of International Life Offices</b>   | Secretariat:<br>PO Box 1747<br>L-1017<br>Luxembourg                               |
| Web: <a href="http://www.aiilo.org">www.aiilo.org</a><br>Tel: +352 442 659   |   |

## USEFUL CONTACTS

### International Supervisory Representative Bodies

|  |   |
|--|---|
| <b>International Association of Insurance Supervisors</b>                          | c/o Bank for International Settlements<br>CH-4002 Basel<br>Switzerland  |
| Web: <a href="http://www.iaisweb.org">www.iaisweb.org</a><br>Tel: +41 61 225 7300  |   |
| <b>International Organisation of Pensions Supervisors</b>                          | 2, Rue André Pascal<br>F-75775<br>Paris,<br>Cedex 16<br>France  |
| Web: <a href="http://www.iopsweb.org">www.iopsweb.org</a><br>Tel: +33 145 24 14 52 |   |
| <b>Group of International Insurance Centre Supervisors</b>                         | Secretariat:<br>c/o Guernsey Financial Services<br>Commission<br>P.O. Box 128<br>Glatigny Court<br>Glatigny Esplanade<br>St Peter Port<br>Guernsey<br>GY1 3HQ |
| Web: <a href="http://www.ogis.net">www.ogis.net</a>                                |   |



Version 2015