

**Isle of Man: Financial Sector Assessment Program Update—Detailed Assessment of
Observance of the Insurance Core Principles**

This Detailed Assessment of Observance of the Insurance Core Principles Report on the **Isle of Man** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed in April 2009. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the Isle of Man or the Executive Board of the IMF.

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FINANCIAL SECTOR ASSESSMENT PROGRAM UPDATE

ISLE OF MAN

INSURANCE CORE PRINCIPLES

DETAILED ASSESSMENT OF OBSERVANCE

APRIL 2009

INTERNATIONAL MONETARY FUND
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GLOSSARY

ACCA	Association of Chartered Certified Accountants
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
CDD	Customer due diligence
CPD	Continuous professional development
DCG	Corporate governance
GAAP	Generally Accepted Accounting Principles
GN	Guidance note
GWP	Gross written premium
FATF	Financial Action Task Force
FSC	Financial Supervision Commission
FSOS	Financial Services Ombudsman Scheme
IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principle
IFRS	International Financial Reporting Standards
IOM	Isle of Man
IPA	Insurance and Pension Authority
MOU	Memorandum of understanding
PI	Professional indemnity
POB	Professional Oversight Board
RMM	Required minimum margin

EXECUTIVE SUMMARY, KEY FINDINGS, AND RECOMMENDATIONS

Insurance regulation in the Isle of Man (IOM) broadly meets international standards, taking into account the scope of business carried out on the island. Regulation has been strengthened since the 2003 Offshore Financial Center (OFC) assessment. The Insurance and Pension Authority (IPA) has been putting in place Memorandums of Understanding (MOUs) with home regulators and is exchanging information extensively. Effective regulation is facilitated by a sound legal and institutional framework and by the availability of actuarial expertise, locally and through good connections to the United Kingdom (U.K.) profession.

While the IPA has clear regulatory objectives and enjoys a high degree of operational independence, some scope remains for government and political intervention. The IPA is, for example, dependent on government budgetary allocations to fund spending. Members of the authority can be dismissed by the Council of Ministers with the reasons not having to be made public.

There are some gaps in the framework of regulations, although the IPA is already working to address most of these. There are no industry-specific standards on corporate governance and related issues. However, the IPA is close to adopting new binding guidance setting out its expectations in these areas. It already covers governance and related issues in its on-site work. The other significant areas for enhancement are: (i) powers and procedures for group supervision, for the limited number of cases where this is necessary; and (ii) disclosure requirements, which IPA is now working on, taking account relevant International Association of Insurance Supervisors (IAIS) standards.

The IPA faces challenges in the future, including developing a response to Solvency II. IPA's resources are small (12 staff in total for insurance and pensions) but skilled individuals have been recruited to assist in the further development of its work (including on-site supervision, which has been focused on anti-money laundering and combating the financing of terrorism (AML/CFT) issues in recent years). While the existing regime for reserving and solvency is sound, the IPA will face challenges in developing a response to the European Union (EU) Solvency II initiative, which, while not binding on the IOM, will affect most parent groups and set a new international standard. IPA is also standing ready to respond to any development of major new lines of insurance business on the Island (there is interest in attracting reinsurance) and is keeping its resource needs under review.

Key recommendations are that: (i) remaining areas where there is scope for government and political intervention be addressed; (ii) measures are taken to enhance the IPA's approach to group supervision; and (iii) requirements on the disclosure of information to stakeholders are introduced.

I. INTRODUCTION¹

1. **This assessment of the IOM's compliance with IAIS Insurance Core Principles (ICP) was carried out as part of the 2008 Financial Sector Assessment Program (FSAP).** It thus updates and replaces the assessment conducted in 2002 (and published in 2003) in the context of the OFC assessment of the IOM.

A. Information and Methodology Used for Assessment

2. **The assessment was made based on information available in September 2008 at the time of the FSAP Update mission.** The authorities contributed a full self-assessment and further information in response to a pre-mission questionnaire. Full documentation, including all relevant laws and regulations, was supplied. In particular, it was assumed that the Insurance Act 2008 (IA2008) was in force—at the time of the mission, this act had been passed by parliament (Tynwald) and was expected to come into force shortly thereafter. (Royal Assent has since been received and the Insurance Act 2008 took effect on December 1, 2008.) Selected insurance companies provided input on the results of prescribed stress tests (see FSSA).

3. **The assessment took account of discussions with the IPA in the course of the mission as well as meetings with government, insurance companies (and managers of captive companies), industry, accountancy and actuarial bodies, and the local representative of a major audit practice.** The assessor is grateful for the full cooperation extended by all.

4. **The assessment was based on the 2003 version of the IAIS Insurance Core Principles and Methodology.** It took into account relevant IAIS standards and guidance in addition to the ICPs. It takes account of IAIS papers on the regulation of captive insurance, including a paper that has been the subject of consultation but had not been finalized or published by the IAIS at the time of the mission to the IOM. The assessment of ICP 28 (anti-money laundering, combating the financing of terrorism (AML/CFT)) has been informed by the IMF's assessment, also carried out in September 2008, of the IOM's compliance with the Financial Action Task Force (FATF) AML/CFT standards, using the 2004 Methodology.

B. Institutional and Market Structure—Overview

5. **The insurance market has four categories: long-term (life) insurance, general insurance, reinsurance, and restricted (captive) insurance.** The life sector is largest with GBP 8.4 billion in gross written premiums² (GWP) and GBP 38.6 billion in assets, 2007.

¹ The assessor was Ian Tower of the Monetary and Capital Markets Department of the IMF.

² This compares with the total U.K. life insurance GWP of GBP 175 billion in 2007.

Seventeen companies (as at end-March 2008) write mainly unit-linked business. U.K. investors and U.K. expatriates in the Middle and Far East form the majority. But business is targeted at overseas investors generally, including in the EU. Distribution is mostly through brokers and advisers operating overseas in the markets from which business originates.

6. **Captives is the next largest sub-sector (128 companies and GBP833 million in GWP, 2007).** Twenty-three firms are authorized as managers of captive companies. Nonlife (GBP 205 million of GWP in 2007) and reinsurance (GBP 319 million of GWP in 2007) are comparatively small. There is also a significant pensions sector, mostly providing defined contribution benefits (1,187 schemes with GBP1.2 billion in total assets at end-2007).

7. **The IPA is the regulator of insurance and pensions under a number of existing laws and regulations, many of which are being consolidated, with certain substantive changes, in the IA2008.** Its responsibilities under the IA2008 include regulation of general insurance intermediaries (life intermediaries are regulated by the Financial Supervision Commission (FSC)) and managers of captive insurance companies; and management of the statutory compensation scheme for life insurance. The IPA is governed by a five-member board, including the chief executive. Board members (referred to as members of the authority) are appointed by the IOM Treasury subject to Tynwald approval. The chief executive (referred to in legislation as the Supervisor), as a member of the staff of the IPA, is appointed by the board to that position although his role as a member of the IPA Board is subject to the same appointment provisions as for other members. There are 12 staff in total.

8. **The Financial Services Ombudsman Scheme (FSOS), a separate body administered by the Office of Fair Trading, handles complaints by consumers (against any IOM financial services provider) that cannot be resolved by regulated firms themselves.**

9. **The legal and institutional framework is independent of the UK but draws heavily on U.K. standards and practices.** The Manx legal system is based largely on English common law principles. Accounting standards are set out in companies acts and in insurance legislation. There is a local office of the Institute of Chartered Accountants of England and Wales and the Association of Chartered Certified Accountants (ACCA). The Manx Actuarial Society is a regional society within the U.K. Actuarial Profession. Life insurance companies are represented by the Manx Insurance Association and captives and their managers by the Manx Insurance Managers Association.

10. **Recent life insurance sector performance has been strong, though growth rates, especially in captives business, are easing.** After rapid growth in 2005 and 2006, new business volumes and investment performance have been adversely affected by weaker global equity markets. The number of captives established in the IOM has fallen, reflecting competition from jurisdictions within the EU. A major review was undertaken in late 2007 (the Bennet Report) to assess prospects for captives business and establish a program of

initiatives to support the efforts of captives managers to diversify sources of business. This report also refers to the potential for developing more reinsurance business on the IOM.

11. **The insurance sector is highly profitable relative to its low risk profile and is also particularly well-capitalized.** Life insurance companies, which account for 80 percent of gross premium income, have been achieving returns on equity (on a statutory accounting basis) of up to 50 percent in recent years, in the wake of sharp increases in business. Solvency has remained comfortable: net assets available to meet the Required Minimum Margin (RMM) exceed the RMM five times over. The captive sector is even more strongly capitalized in aggregate. Many overseas insurance groups with operations in the Island as well as parents of the captive companies choose to accumulate surpluses in the IOM company against future business growth or for tax management purposes.

12. **Stress tests confirm that the Manx life insurance sector exhibits considerable resilience against shocks (see FSSA).** The results principally reflect the sector’s low exposure to risk: most business is unit-linked and key risks are either limited (in the case of mortality risk) or borne by policyholders (most market risk). The effects of shocks to mortality risk are therefore negligible and insurers have limited credit or property risk. Other market risk shocks have a more significant impact, especially where they involve changes to the fund values. But the results show that on average, minimum requirements are still comfortably covered in all the shocks (in practice, the IPA expects firms to meet a margin of at least twice the formal minimum—but this level is also well-covered after the shocks).

C. Main Findings

Table 1. Summary of Observance of the Insurance Core Principles—Detailed Assessment

Insurance Core Principle	Grading	Comments
ICP1 - conditions for effective insurance supervision	O	The IOM has well-defined, transparent and effective policy, legal and institutional frameworks for insurance business and access to well-functioning financial markets. The jurisdiction benefits from the good availability of professional services locally and through access to the resources of major practices in the United Kingdom and elsewhere.
ICP2 - Supervisory objectives	O	The IPA has clear and appropriate objectives and there is a clear understanding among staff of the objectives and approach to regulation and the distinction between regulation and promotion of the insurance sector.
ICP3 - Supervisory authority	LO	There are aspects of the institutional framework that could in certain circumstances constrain its ability to meet its regulatory objectives: the ability of the Council of Ministers to dismiss the IPA Board, the Tynwald power to annul regulations, and the funding arrangements. In practice, however, the IPA enjoys a high degree of operational independence from government.
ICP4 - Supervisory process	O	The IPA conducts its functions in a transparent and accountable manner. Comprehensive information on its activities is provided to government, Tynwald, and the public through various means.

Insurance Core Principle	Grading	Comments
ICP5 – Supervisory cooperation and information sharing	O	The IPA is well-apprised of the importance of exchanging information with other supervisors, particularly given the significant presence of international groups on the IOM. It is extending its program of MOUs and is committed to becoming a signatory to the IAIS Multilateral MOU. It exchanges information in practice, both under MOUs and where otherwise requested.
ICP6 – Licensing	O	There is a comprehensive framework for the licensing of insurance business. A significant recent development in the IA2008 has been the extension of provisions enabling the IPA to authorize companies from outside the EU establishing as branches in the Island and to exempt them from some prudential requirements. In practice, the number of companies applying for such treatment is expected to be limited.
ICP7 – Suitability of persons	O	There is a comprehensive framework for considering the suitability of key persons. The IPA should consider whether to have a formal provision preventing a person holding two positions in a company with potential for conflict of interest. But it already has adequate powers to identify and address such conflicts where they arise in practice.
ICP8 – Changes in control and portfolio transfers	O	There is a comprehensive framework for the regulation of changes in control and portfolio transfers. While there is less need to regulate transfers of nonlife portfolios (mostly captives) and they are not covered by the current framework, they will be brought within it under the forthcoming regulations. In the interim, planned new binding guidance on corporate governance (DCG) will require insurers to notify the IPA in advance of all proposed transfers.
ICP9 – Corporate governance	LO	The IPA is committed to setting and enforcing high governance standards. It is able to require specific action from firms. It has taken supervisory and enforcement action in relation to weak governance. The combination of Companies Act requirements and IPA's supervision and enforcement work has created a broadly effective framework of governance requirements. However, the planned DCG, expected to take effect in Q1 2009, will help to ensure that all firms are aware of the detailed standards expected of them.
ICP10 – Internal controls	LO	Comments recorded on corporate governance under ICP 9 apply for internal controls also.
ICP11 – Market analysis	O	The IPA monitors developments in the markets through its relationships with insurers and trade associations and its membership of international supervisory groups. The IPA could also consider (mainly in relation to advanced criteria) the publication of more information on industry performance and financial strength, for example, developments in solvency ratios; and the introduction of a more quantitative element into its analysis of the market and individual firms, for example, carrying out periodic exercises to test the vulnerability of the sector (or parts of it) to particular adverse scenarios.
ICP12 – Reporting to supervisors and off-site monitoring	O	The IPA has a well-developed process for analyzing annual returns and taking follow-up action. The IPA by choice employs no qualified actuaries and the offsite work therefore relies on consultants based in the United Kingdom for the analysis of the most technical issues. This relationship, which has now been in

Insurance Core Principle	Grading	Comments
		place for a number of years, functions effectively. Supervisory staff take responsibility for the communication and follow-up of issues at all stages of the process.
ICP13 - On-site inspection	LO	The IPA has a well-structured approach to on-site work with extensive internal guidance on procedures, template letters, etc. While its work to date has been driven by the high priority given to AML compliance, it is now starting to broaden the on-site program to cover all aspects of all insurance companies' business over the next few years. This is a necessary and significant enhancement in on-site work that will require careful management to avoid resourcing strains.
ICP14 - Preventive and corrective measures	O	The IPA's approach is informed by its ability to communicate regularly with the small number of insurance companies and captive managers on the IOM. This makes it easy to address concerns in the first instance through supervisory dialogue and discussion. However, the IPA also has the necessary powers and has used them in practice to impose more formal requirements of firms in the event of actual or expected concerns.
ICP15 - Enforcement or sanctions	O	The IPA rarely in practice uses its extensive formal powers. However, the availability of powers has been helpful to the IPA in reinforcing its supervisory actions. Market perceptions are that the IPA is ready and willing to use formal enforcement powers where options for supervisory action have been exhausted or where serious breaches of its requirements have taken place.
ICP16 - Winding-up or exit from the market	O	The framework provides for appropriate routes for orderly exit, sets out the procedures for dealing with insolvency and, for life insurance business, provides for mechanisms to protect policyholders as far as possible, particularly through transfer of policies to another insurer. The framework has not been tested in practice as no life insurer has failed; nor has the IPA ever sought a winding-up.
ICP17 - Group-wide supervision	PO	The IPA is focused on supervision of the solo entity and cooperation with the supervisors of the parent group. In the majority of cases, this is sufficient to address risks in IOM authorized companies appropriately. But there are some cases—and could be more in the future—where it is appropriate for the IPA to carry out, or ensure that another regulator carries out, a test of group solvency, informed if possible by a wider assessment of the risks to the group.
ICP18 - Risk assessment and management	LO	Comments recorded on corporate governance under ICP 9 apply for internal controls.
ICP19 - Insurance activity	O	The IPA has adequate powers and procedures to ensure insurance companies have the tools required to price business and manage their insurance risks effectively.
ICP20 - Liabilities	O	IPA has a developed framework of requirements for the establishment of adequate technical provisions. Its supervisory staff and actuarial consultants work together on the assessment of individual firms' provisions.
ICP21 - Investments	O	IPA has an adequate framework of requirements on insurers' investments.
ICP22 - Derivatives and similar commitments	O	The use of derivatives by insurers in the IOM is limited to life insurers. While more relevant to observance with ICP 18, the introduction of the planned DCG and related issues will

Insurance Core Principle	Grading	Comments
		helpfully set out the IPA's expectations in these areas also.
ICP23 - Capital adequacy and solvency	O	The IPA has a well-founded framework of solvency regulations that combine a hard minimum requirement with a flexible approach to setting higher minimum standards for individual firms to reflect their risk profiles. It has well-defined processes to monitor actual capital levels and to respond to breaches of minimum requirements. The IPA will need to consider in due course its response to Solvency II and wider international developments, taking into account resource implications.
ICP24 - Intermediaries	O	There are extensive requirements applying to intermediaries under the IPA (general insurance) and FSC (life insurance) regimes. The IPA's powers over general insurance intermediaries have been extended under the IA2008. The IPA should keep under review whether reliance on Professional Indemnity Insurance is sufficient to protect consumers from the potential impact of an intermediary failing.
ICP25 - Consumer protection	LO	As for a number of other ICPs, the introduction of the planned DCG and related issues will helpfully set out the IPA's expectations in these areas. There are no explicit requirements in the IA2008 itself, even at a high level. But the IPA attaches importance to high standards and covers market conduct in its supervision and enforcement work.
ICP26 – Information, disclosure and transparency towards markets	NO	There are no disclosure requirements. But the IPA is engaged with the industry on the development of standards. It is not clear when this may result in requirements taking effect.
ICP27 - Fraud	LO	While the IPA has a range of powers to ensure that insurance companies address fraud risks (and it covers the issues in supervisory work), it lacks standards on internal controls in this area. The proposed DCG and related issues will deliver these.
ICP28 - Anti-money-laundering, combating the financing of terrorism	O	The IPA has a well-developed set of requirements, especially (and appropriately) for life insurance business. It has also been making AML issues a priority for on-site supervision work. See also the IMF's assessment, carried out in September 2008, of the IOM's compliance with the FATF AML/CFT standards, using the 2004 Methodology.
<i>Aggregate:</i> Observed (O) – 19, largely observed (LO) – 7, partly observed (PO) – 1, not observed (No) – 1, not applicable (N/A) – 0.		

D. Recommended Action Plan and Authorities' Response

Recommended action plan

Table 2. Recommended Action Plan to Improve Observance of the Insurance Core Principles

Principle	Recommended Action
ICP3 - Supervisory authority	The authorities should address those parts of the institutional arrangements for the IPA that leave scope for government intervention: the provisions for dismissal of Board members of the IPA, the provision for Tynwald to annul regulations, and the funding arrangements.
ICP9 - Corporate governance ICP10 - Internal controls ICP18 - Risk assessment and management ICP25 - Consumer protection ICP27 - Fraud	The IPA needs to complete as soon as possible its work on a comprehensive new binding guidance on corporate governance and related issues to ensure that all firms are aware of the detailed standards which are expected of them in these areas.
ICP17 - Group-wide supervision	IPA needs to have powers and processes to carry out group supervision—a test of group solvency, informed if possible by a wider assessment of the risks to the group. Its approach will need to be kept under review as IAIS policy in the area of group supervision continues to develop.
ICP26 - Disclosure and Transparency	The IPA should introduce disclosure requirements for insurance companies (other than pure captives), having consulted with the industry and other stakeholders on what information will be most useful. Alternatively, the IPA could consider putting itself in a position where it can publish supervisory returns itself.

Authorities' Response to the Assessment

13. **The assessment is a fair and accurate summary of the position in relation to insurance regulation in the IOM as at the date of the assessment.**

14. **In response to the specific recommended action points set out in the table above the IPA would comment as follows:**

- ICP3: The IPA will be discussing these matters further with the Treasury to examine how they might be addressed.
- ICP9, 10, 18, 25, 27: In order to address these points, the IPA is continuing to develop its draft binding guidance on corporate governance and expects to issue this for consultation in April 2009 with a view to implementing it by the end of 2009.

- ICP17: The IPA is currently considering this issue with a view to developing and implementing appropriate requirements using the enabling provisions available to it under the IA 2008 and taking into account the IAIS’s continuing work in this area.
- ICP26: The IPA’s current preference in this matter is for relevant companies to be required to publish certain information in due course, rather than the IPA publish it itself. To this end it will continue its discussions with the Manx Actuarial Society with a view to setting out some initial principles, taking into account the detailed provisions of this ICP and the IAIS’s various published Standards.

II. DETAILED ASSESSMENT

Table 3. Detailed Assessment of Observance of the Insurance Core Principles

Conditions for Effective Insurance Supervision	
Principle 1.	<p>Conditions for effective insurance supervision Insurance supervision relies upon:</p> <ul style="list-style-type: none"> • a policy, institutional and legal framework for financial sector supervision; • a well-developed and effective financial market infrastructure; and • efficient financial markets.
Description	<p>Long-established government policy is to develop a broadly-based financial sector within a diversified economy. The treasury is responsible for public finances and economic stability. There is no body formally responsible (e.g., in legislation) for financial stability—and the IOM has no central bank to take on this role as it does in many jurisdictions. There is no explicit government statement on financial stability, nor is financial stability included in the IPA’s statutory objectives. However, these objectives do cover maintaining confidence in the industry as well as policyholder protection and reducing the use of insurance in connection with crime. The government has made clear its commitment to effective regulation of financial services—and to the development of insurance business in the IOM “provided it is properly managed and adequately financed” (Guidance Notes for Insurance Business).</p> <p>The IPA has to have regard, inter alia, to the desirability of maintaining the competitive position of the IOM (and its mission statement emphasizes the IOM’s international reputation and securing a good environment for business). While the IPA participates in discussions about promoting the Island’s financial sector, bringing an insurance and pensions regulatory perspective, its statutory objectives, as reflected in its own understanding of its role, are clearly confined to regulation. Promotion is the responsibility of the treasury—under its IOM Finance initiative.</p> <p>There is a well-developed legal and institutional infrastructure reflecting the close links with the United Kingdom. Because the IOM is not an EU member, it develops its own framework for financial services regulation. But it has close regard to EU standards and practices. The legal and institutional framework is transparent—for example, information is posted on IOM government and IPA websites.</p> <p>There is a well-established and resourced court system, whose judgments command confidence, and an alternative dispute resolution mechanism, FSOS, for complaints handling.</p> <p>There is an institutional framework for setting and enforcing accounting, actuarial and auditing</p>

	<p>standards, while ensuring an alignment with international best practices.</p> <p>For insurance, the main accounting standards are set out in law (principally the Insurance Regulations 1986). A statutory provision in the Companies (Amendment) Bill 2008—requires firms to follow U.K. Generally Accepted Accounting Principles (GAAP), U.S. GAAP, or International Financial Reporting Standards (IFRS) in preparing accounting statements. Relevant auditing standards are then applied. Insurance companies must have their accounts audited by a firm with at least GBP 10 million in professional indemnity (PI) cover and experience of insurance (Guidance Notes for Insurance Business, paragraph 9). In practice, all major insurance companies are audited by the global accounting practices, through local offices and/or group audits managed from the United Kingdom or other parent company jurisdictions.</p> <p>Whereas the authorities have aimed in the past to maintain a broad equivalence of regulatory requirements governing insurance company accounts and the requirements set by accountancy standard-setters, for example, on the valuation of insurance liabilities, recent reforms to U.K. GAAP and the introduction of IFRS have accentuated the differences, with IFRS in particular. The IPA is reviewing the implications.</p> <p>Accounts do not have to be published (see ICP26).</p> <p>Accounting and auditing work are not currently subject to the same level of oversight as in other major jurisdictions. There is no local equivalent of the U.K. Financial Reporting Council or its Professional Oversight Board (POB). However, the work of auditors is subject to review by their own professional bodies. The Companies (Amendment) Bill 2008 enables the FSC to make regulations for the oversight of auditors—which will be conducted in practice, in respect of listed companies, by the U.K. POB.</p> <p>A number of qualified actuaries as well as students practice on the IOM, mostly members of the U.K. professional bodies. Insurance companies and other users of actuarial services (including auditors and the IPA itself) also have access to resources in the U.K., where required. More complex valuation work is routinely handled by experts from outside the IOM.</p> <p>Actuaries working in the Island are subject to the standards and oversight, including continuous professional development (CPD) requirements, of their professional bodies (so in most cases, the Institute and Faculty of Actuaries). As for accountants, these are more limited than those applying in the United Kingdom: Board of Actuarial Standards and POB oversight do not apply and appointed actuaries are not subject to certification with its higher CPD requirements. The Manx Actuarial Society, a regional society within the U.K. Actuarial Profession, acts to promote high standards but cannot enforce them. The IPA has moved to fill part of this gap by issuing its own detailed valuation requirements for long term business.</p> <p>The IPA regularly reviews its requirements, to take account of domestic needs and developing EU and international regulation. Taking into account its limited resources, the IPA is an active participant in international regulatory fora.</p> <p>There are no developed financial markets (money or securities) in the IOM, and no need for them as insurance companies can look to markets in the United Kingdom and elsewhere for access to financial instruments for investment (in practice funds to which to link) and hedging purposes to back mostly non-domestic liabilities. Even domestic liabilities can be backed by overseas investments as there is a currency union between the Manx pound and the U.K. pound sterling.</p>
Assessment	Observed
Comments	The IOM has well-defined, transparent and effective policy, legal and institutional frameworks for insurance business and access to well-functioning financial markets. The jurisdiction benefits from the good availability of professional services locally and through access to the resources of major

	<p>practices in the United Kingdom and elsewhere.</p> <p><i>Issues for the IPA to consider are:</i></p> <ul style="list-style-type: none"> • <i>the need to keep under review the adequacy of local statutory oversight of auditing and actuarial work, taking into account the extent to which oversight is effected in practice by overseas regulators; and</i> • <i>the need for development of the accounting and financial reporting framework for IOM insurance business, e.g. to take account of IFRS, and to provide for mandatory publication of accounts.</i>
The Supervisory System	
Principle 2.	<p>Supervisory objectives</p> <p>The principal objectives of insurance supervision are clearly defined.</p>
Description	<p>The IPA’s objectives focus on key insurance regulatory tasks as defined by the IAIS and are clearly set out in the IA2008, together with matters to which the “supervisor” (i.e., the chief executive and, in practice, his staff) must have regard. The treasury and IPA are committed to periodic reviews of the objectives.</p> <p>The IPA also publishes its own mission statement. This gives somewhat greater emphasis than the IA2008 objectives to “maintaining the reputation” and “safeguarding the image” of the IOM (and of the IPA) but otherwise reflects the objectives set out in law.</p>
Assessment	Observed
Comments	<p>The IPA has clear and appropriate objectives and there is a clear understanding among staff of the objectives and approach to regulation and the distinction between regulation and promotion of the insurance sector. Deviations from objectives, and contradictions between them, would be highlighted and addressed, in conjunction with government.</p> <p><i>Nonetheless, the IPA might consider the amendment or withdrawal of its mission statement, which predates the legislation setting out the statutory objectives.</i></p>
Principle 3.	<p>Supervisory authority</p> <p>The supervisory authority:</p> <ul style="list-style-type: none"> • has adequate powers, legal protection, and financial resources to exercise its functions and powers; • is operationally independent and accountable in the exercise of its functions and powers; • hires, trains, and maintains sufficient staff with high professional standards; and • treats confidential information appropriately.
Description	<p>IA2008 clearly identifies the IPA as the regulator of insurance, defines the scope of its responsibilities and gives it powers to make and enforce regulatory requirements.</p> <p>Sections 50 and 51 give wide-ranging powers to the authority to issue regulations and “Guidance Notes for the purposes of providing binding guidance” (GN). Regulations and GN have to be submitted to Tynwald after they take effect. Regulations, but not GNs, can be annulled by Tynwald. Treasury must be consulted on regulations. Regulations and GNs are together equivalent to a rulebook for insurers. The IPA has powers to enforce all regulations (see detail under ICPs 14 to 16). It has no formal power to waive the requirements imposed by Regulations or GNs on an ad hoc basis.</p> <p>The authority’s governance and structure are defined in IA2008 and internal corporate governance procedures—which are compliant with the Corporate Governance Principles and Code of Conduct applicable to all IOM government offices and functions. The IA sets out procedures for appointments of appropriately qualified individuals to the Authority and CEO.</p>

	<p>Board members can be removed by the Council of Ministers under general legislation applying to statutory boards (Statutory Boards Act, Section 3). There is no explicit requirement to publish reasons, although decisions of the Council of Ministers are published in summary. The process has never been used in practice.</p> <p>The IPA has full operational autonomy in respect of its expenditure, including staff remuneration (staff are IPA employees not civil servants). But its income is provided by government: the IPA must bid for both funding and headcount in the annual budget process. Fees raised by the authority, for example, in connection with licensing, are formally part of government revenue.</p> <p>In practice, the government has not refused IPA bids and IPA has been able, for example, to recruit the numbers of staff and skills it requires and to engage experts (in particular, the IPA chooses not to employ actuaries but to rely on the services of a leading global practice to support its review of insurance company returns and other work requiring a high degree of technical actuarial input).</p> <p>In common with a number of other regulators internationally, the IPA has suffered from staff losses and recruitment challenges in the recent past (and this has affected the work program). It currently enjoys a full complement of staff (12 in total, covering its insurance and pensions responsibilities).</p> <p>The IPA’s regulatory processes are set out in legislation, including a requirement to consult (in particular “those likely to be effected by the proposed regulations”—IA2008 Section 50). While not required, regulatory impact assessments are conducted. The annual report includes audited financial information.</p> <p>In addition to publishing an annual report, the IPA seeks to account for its activities and policies at public events. It has not published details of failed insurers—there have been no cases of failure in the life insurance sector since the present supervisory regime was introduced in 1986 (it would consider its approach in the event of a future failure).</p> <p>The IPA has powers to take immediate action where required to protect policyholders. It can require costs to be met by the insurer where the insurer is deemed at fault.</p> <p>Restrictions on disclosure of confidential information, other than through specified gateways for defined purposes, are set out in IA2008 Schedule 6. The restrictions apply also to experts and consultants (they are covered by the application of Schedule 6 to officers and servants of the authority).</p>
Assessment	Largely Observed
Comments	<p>There are aspects of the institutional framework that could in certain circumstances constrain its ability to meet its regulatory objectives:</p> <ul style="list-style-type: none"> • the ability of the Council of Ministers to dismiss the IPA Board and lack of an explicit provision for publication of the reasons for so doing; such a dismissal has not occurred, but current arrangements potentially create scope for undue interference in regulation; • the Tynwald power to annul regulations, which reflects the commitment of the IOM authorities to the accountability of regulators to the elected representatives; and • the funding arrangements: these are driven in part by concerns to maintain the competitive position of the Island in the fees charged to captive insurance companies. The IPA is confident that its effectiveness is not compromised by dependence on government funding, either generally or in case of a crisis that required sudden unexpected increases in its expenditure.

	<p>In practice, however, the IPA enjoys a high degree of de facto independence from government and political intervention. It benefits from a close working relationship with the treasury—arrangements which will soon be set out in a formal MOU between the two bodies similar to that agreed between FSC and Treasury in July 2008. It has experience of introducing necessary but contentious legislation (on anti-money laundering in particular), with government and Tynwald support.</p> <p><i>See Recommendations in Table 2.</i></p>
Principle 4.	<p>Supervisory process</p> <p>The supervisory authority conducts its functions in a transparent and accountable manner.</p>
Description	<p>The IPA's requirements and information on its processes are readily available on its website and in the Annual Report. Regulations and processes are kept under review. Wider information on its role is available on the website.</p> <p>The IPA's approach to regulation is grounded in the objectives and in the wide range of the matters to which it has to have regard in the early sections of the IA2008. These condition the authority to act consistently and equitably, taking into account the risks in different insurance business—and the responsibilities of insurance company management.</p> <p>There is provision in IA2008 Section 45 for appeals against any decision under the IA2008 to an independent tribunal (replacing previous arrangements for appeal to the Council of Ministers). Appeal against the tribunal's decision on a point of law is available—by application to the high court under Section 45(7) of the IA 2008.</p> <p>There is provision in the IA2008 Section 23 (3) and Tribunals Act for the IPA to take appropriate emergency action without waiting for the outcome of an appeal—where justified by a need to protect policyholders.</p> <p>The Annual Report contains aggregate financial information on the insurance sector. This covers balance sheet and income data but not solvency ratios and performance information—that is, measures of financial strength.</p>
Assessment	Observed
Comments	<p>The IPA conducts its functions in a transparent and accountable manner.</p> <p><i>There are some areas where it could consider the publication of more information:</i></p> <ul style="list-style-type: none"> • <i>industry performance and financial strength, for example, developments in solvency ratios (in line with advanced criterion (h) of this ICP); and</i> • <i>detail on supervisory processes, for example how it assesses risk, conducts visits and feed back to firms—along the lines of the FSC's January 2007 document on its supervisory approach.</i>
Principle 5.	<p>Supervisory cooperation and information sharing</p> <p>The supervisory authority cooperates and shares information with other relevant supervisors subject to confidentiality requirements.</p>
Description	<p>Schedule 6 of IA2008 gives the IPA authority to disclose information to relevant domestic and overseas regulators. The IPA has MOUs with a number of those regulators to whom it expects to exchange information regularly. It intends to become a signatory to the IAIS Multilateral MOU. While information disclosure is subject to certain limitations, to ensure that disclosure takes place in appropriate circumstances and to relevant authorities (and includes a proportionality requirement), there is no requirement for reciprocal exchange and the IPA is able to initiate</p>

	<p>exchanges where no MOU or other agreement is in place.</p> <p>The IPA has exchanged information in practice with home authorities—in response to formal requests and in meetings with other regulators, individually and in college meetings (which it attends in particular where the IOM business represents a significant part of the total business of the group, as is the case with several insurers in the IOM).</p> <p>The IPA takes steps in the context of agreeing MOUs to ensure that information disclosed will be treated as confidential. Or where no MOU exists, it will satisfy itself on confidentiality before making a disclosure.</p> <p>The IPA has home and host responsibilities. It will normally inform the relevant host/home supervisor before taking action against a company. It usually but not always informs host supervisors of changes in its supervision that are relevant to their work.</p>
Assessment	Observed
Comments	The IPA is well-apprised of the importance of exchanging information with other supervisors, particularly given the significant presence of international groups on the IOM. It is extending its program of MOUs and is committed to the IAIS Multilateral MOU. It exchanges information in practice, both under MOUs and where otherwise requested (subject to being satisfied that information will remain confidential in the hands of the receiver).
The Supervised Entity	
Principle 6.	<p>Licensing</p> <p>An insurer must be licensed before it can operate within a jurisdiction. The requirements for licensing are clear, objective and public.</p>
Description	<p>Sections 3 and 54 of the IA 2008 and Regulation 20 of the Insurance Regulations 1986 set out the requirements for insurers to be authorized and define “insurer” and “insurance business.” There are exemptions for certain (U.K.-authorized) friendly societies, Trade Union and Employers associations, Banking Act licensees in respect of certain business, U.K.- and EU-authorized institutions with no local place of business and Society of Lloyd’s members.</p> <p>Other foreign insurers can obtain authorization as a “permit holder” under Section 22 of the IA2008 if they satisfy the IPA they conduct insurance business in the home country in compliance with local regulations. This provision enables the IPA to authorize branches of foreign insurers and apply appropriate requirements (excluding, for example, solvency requirements). The IPA has to be satisfied, inter alia, that the insurer could be authorized under the IA2008 but for its incorporation outside the IOM, which requires IPA to take a view on the equivalence of home country regulation (see Guidance Notes for Insurance Business, paragraph 39).</p> <p>Part 4 of the IA2008 sets out clearly and comprehensively the requirements that insurers must meet if they are to be authorized. The Guidance Notes for Insurance Business summarize the requirements. However, there are limited requirements in the IA2008 or Guidance Notes in relation to the adequacy of risk management, internal controls and corporate governance of the applicant insurer. A guidance note on these issues is currently being developed—see ICP 9.</p> <p>Where a foreign insurer applies to do business through a branch or for a Section 22 permit, the IPA communicates with the home country and ensures that the home regulator confirms that parent/group has adequate resources.</p> <p>Composite business is permitted only in limited circumstances, for example, where the long term business is restricted to reinsurance.</p> <p>The IPA can and does impose conditions on licenses. Decisions on authorization are assessed</p>

	usually in four to six weeks. Authorization can be refused where any licensing condition is not met. Continued compliance with authorization conditions is monitored via the regular returns that authorized companies must make.
Assessment	Observed
Comments	<p>The IA2008, Guidance Notes and IA regulations 1986 provide a comprehensive framework for the licensing of insurance business.</p> <p>A significant recent development in the IA2008 has been the extension of provisions (now Section 22 of the IA2008) enabling the IPA to authorize companies from outside the EU establishing as branches in the Island and to and exempt them, where the IPA decides it is appropriate, from prudential and other normally home state requirements.</p> <p><i>This will require the IPA to do diligence on a wide range of the home state authorities to ensure their home state requirements are broadly equivalent. In practice, the number of companies applying for such treatment is expected to be limited. There are only two branches of non-EU companies authorized in the IOM currently.</i></p> <p>It will be important to extend the authorization requirements to include the adequacy of risk management, internal controls and corporate governance of the applicant insurer. See ICP9 on the plans for doing so.</p>
Principle 7.	<p>Suitability of persons</p> <p>The significant owners, board members, senior management, auditors, and actuaries of an insurer are fit and proper to fulfill their roles. This requires that they possess the appropriate integrity, competency, experience, and qualifications.</p>
Description	<p>The IA2008 Section 29 identifies and defines the types of functionary requiring approval by the IPA. Controllers are defined as those who alone or with associates control 15 percent or more of the voting power. The act (Section 29(3)) also gives IPA the power to disqualify a controller and a functionary whom it regards as no longer fit and proper.</p> <p>Insurance companies must provide documents to support their view of the fitness of functionaries. All these provisions apply also to auditors of insurance companies (and managers and intermediaries).</p> <p>There is no provision preventing a person holding two positions in a company with potential for conflict of interest. The IPA would use its general powers to prevent doubling up of office holding if it felt the conflicts were not being (or were not likely to be) managed.</p> <p>Insurers are not currently required to notify the IPA of developments which might call into question the IPA's view of their fitness and propriety. But such a requirement is being introduced as part of new corporate governance requirements—see ICG9.</p> <p>The IA2008 Section 18 requires that insurers doing long-term business appoint an actuary and specifies required professional qualifications of such actuaries. The IPA may talk to the professional body when it has issues with professional competence.</p>
Assessment	Observed
Comments	<p>The IA 2008 gives the IPA a comprehensive framework for considering the suitability of key persons.</p> <p><i>The IPA could consider whether it would find it useful to have a formal provision preventing a person holding two positions in a company with potential for conflict of interest.</i></p>

	It has adequate powers to identify and address such conflicts where they arise in practice.
Principle 8.	<p>Changes in control and portfolio transfers</p> <p>The supervisory authority approves or rejects proposals to acquire significant ownership or any other interest in an insurer that results in that person, directly or indirectly, alone or with an associate, exercising control over the insurer.</p> <p>The supervisory authority approves the portfolio transfer or merger of insurance business.</p>
Description	<p>IA2008 defines controllers of insurers (Section 54) and places obligations on insurers and controllers in respect of changes in control and significant increases in shareholdings (Section 29). The IPA communicates with regulators overseas where an application is received from a potential controller based overseas. Ultimate beneficial owners must be disclosed in applications.</p> <p>Information on financial and other resources of applicant controllers is obtained and assessed.</p> <p>On an ongoing basis the IPA does not routinely ask insurance companies to reconfirm details of shareholders but does ask where necessary and has powers to require such disclosure.</p> <p>Under Section 21 and Schedule 2 of the IA2008, insurers undertaking portfolio transfers in respect of life insurance business are required to obtain a court order (approval by the IPA is not required, although IPA has a right to be heard in court). There are as yet no such requirements for nonlife business but the requirements for life will be extended in due course to nonlife making use of enabling provisions in the IA2008.</p>
Assessment	Observed
Comments	The IA2008 provides a comprehensive framework for the regulation of changes in control and portfolio transfers. While there is less to regulate transfers of non-life portfolios (mostly captives) and they are not covered by the current framework, they will be brought within it under planned regulations (a target timetable could usefully be established for this). In the interim, the proposed binding guidance on corporate governance (the Draft Code of Practice in respect of Corporate Governance—DCG) (see ICP9) will require insurers to notify the IPA in advance of all proposed transfers.
Principle 9.	<p>Corporate governance</p> <p>The corporate governance framework recognizes and protects rights of all interested parties. The supervisory authority requires compliance with all applicable corporate governance standards.</p>
Description	<p>The IPA is in the course of developing a comprehensive guidance note (i.e., an instrument that will be binding on insurers, managers and intermediaries) covering corporate governance and related issues (the Draft Code of Practice in respect of Corporate Governance). This is based closely on ICP 9. It is expected to take effect in early 2009. There are no explicit requirements in the IA2008 itself (e.g., in Part 4, requirements for authorized insurers), even at a high level. Insurers are of course subject to relevant requirements applying to all IOM companies in the Companies Acts.</p> <p>The IPA does, however, attach importance to high standards in this area. It incorporates consideration of corporate governance into:</p> <ul style="list-style-type: none"> its supervisory work; it has, for example, considered corporate governance in its on-site work on captive insurers (on-site work to date on life companies has been focused on AML issues but corporate governance issues arising from AML controls have been considered, including wider governance failures unrelated to AML). Corporate governance issues are included in questionnaires used to gather information ahead of on-site work. The IPA has required firms to appoint non-executive directors.

	<ul style="list-style-type: none"> its monitoring and enforcement work: it has, for example, taken action against a firm where the annual returns revealed problems with its financial controls and the governance arrangements within which they operated. The action resulted in a major overhaul of the governance of the firm.
Assessment	Largely Observed
Comments	<p>The IPA is committed to setting and enforcing high governance standards. It is able to require specific action from firms—if necessary, using its general power to impose requirements under Section 33 of IA 2008. It has taken supervisory and enforcement action in relation to weak governance.</p> <p>The combination of Companies Act requirements and IPA’s supervision and enforcement work has created a broadly effective framework of governance requirements. However, the proposed new code is needed to ensure that all firms are aware of the detailed standards which the IPA expects them to meet and should provide a valuable reference document to support future supervisory or enforcement action where the IPA believes that corporate governance is, or may become, inadequate. In addition, the planned enhancement and refocusing of on-site supervision of life insurers will ensure systematic attention to governance issues in on-site work.</p> <p><i>See recommendation in Table 2.</i></p>
Principle 10.	<p>Internal control</p> <p>The supervisory authority requires insurers to have in place internal controls that are adequate for the nature and scale of the business. The oversight and reporting systems allow the board and management to monitor and control the operations.</p>
Description	<p>As mentioned under ICP10, the IPA is in the course of developing a comprehensive guidance note covering internal controls as well as corporate governance and related issues (DCG). It is expected to take effect in early 2009. There are no explicit requirements in the IA2008 itself, even at a high level. The Guidance Notes for Insurance Business (Paragraph 9) require companies to have proper records and books of account. Insurers are of course subject to relevant requirements applying to all companies in the Companies Acts.</p> <p>As for corporate governance, the IPA attaches importance to high standards in this area and covers internal controls in supervision work (including a review of internal reports and the external auditor’s management letter) and enforcement work.</p>
Assessment	Largely Observed
Comments	<p>Comments recorded on corporate governance under ICP 9 apply for internal controls. Additional protections apply in respect of internal controls from the audit process (the attention given to controls by auditors and the recording of auditor concerns in the management letter, a copy of which is frequently seen and may always be requested by the IPA). As many IOM insurance companies are subsidiaries of international groups, they are also likely to be subject to internal and external audit work driven from group level (or, in the case of captive insurers, from the management company).</p> <p><i>The IPA could consider making it a requirement for insurance companies to send it the external auditor’s management letter.</i></p> <p><i>See recommendation in Table 2.</i></p>

Ongoing Supervision	
Principle 11.	<p>Market analysis</p> <p>Making use of all available sources, the supervisory authority monitors and analyses all factors that may have an impact on insurers and insurance markets. It draws the conclusions and takes action as appropriate.</p>
Description	The IPA monitors developments in the markets through its relationships with insurers, and trade associations and its membership of international supervisory groups. Aggregate information about the sector is published on its website and in the Annual Report.
Assessment	Observed
Comments	<p><i>The IPA could also consider (mainly in relation to advanced criteria):</i></p> <ul style="list-style-type: none"> • <i>(as mentioned under ICP4) the publication of more information on industry performance and financial strength, for example, developments in solvency ratios; and</i> • <i>introducing a more quantitative element into its analysis of the market and individual firms by carrying out periodic exercises to test the vulnerability of the sectors (or parts of it) to particular adverse scenarios.</i>
Principle 12.	<p>Reporting to supervisors and off-site monitoring</p> <p>The supervisory authority receives necessary information to conduct effective off-site monitoring and to evaluate the condition of each insurer as well as the insurance market.</p>
Description	<p>Insurers under required under IA2008 to make regular reports to the IPA and the insurance regulations set out the required form and content of the reports. Annual reports and accounts must be sent to IPA. Financial returns, with statements by directors, auditors and actuaries are required annually. Companies also report a more limited range of information quarterly on an unaudited/uncertified basis, although these requirements are waived where considered appropriate (waivers are generally given only to captives).</p> <p>IPA staff review the returns initially and then, in the case of long-term insurers, communicate with the major firm of actuarial consultants retained by the IPA. IPA staff then write formally to companies with findings and issues arising from their own and the actuarial work. Meetings and conference calls also take place, but the IPA has put in place processes to ensure that issues are communicated formally in writing. They also monitor follow-up to ensure issues are addressed and further action taken as required.</p> <p>The results from the returns analysis are integrated with findings from on-site work and other sources of information (e.g., home supervisors) to develop an overall view of firms and their risk profile. This process is relatively informal: there is no model or formal recording of scores.</p> <p>Returns are not required on a group basis (see ICP17). The IPA uses group accounts to monitor the financial strength of the group, where relevant.</p> <p>Section 22 permit holders (branches of insurers incorporated in countries which the IPA is satisfied have equivalent requirements) are exempt from all reporting requirements—although IPA can require reporting from individual or all permit holders if it thinks it appropriate. (It can also impose other prudential requirements from which these firms are normally exempt).</p> <p>The IPA keep reporting requirements under reviews and makes periodic changes.</p>
Assessment	Observed
Comments	The IPA has a well-developed process for analyzing annual returns and taking follow-up action.

	<p>While IPA supervisors have relevant qualifications and experience, the IPA by choice employs no qualified actuaries and the offsite work therefore relies on consultants based in the United Kingdom for the analysis of the most technical issues. This relationship, which has now been in place for a number of years, functions effectively. Supervisory staff take responsibility for the communication and follow-up of issues at all stages of the process. The arrangements are well-understood and supported by insurance companies.</p> <p><i>The IPA could consider introducing greater structure and formality into its process for developing an overall view of firms and recording its assessment and supervisory plan. However, its current relatively informal approach is not inappropriate given the small number of firms active in the life insurance market. (A more formal approach is not required for captives.)</i></p>
Principle 13.	<p>On-site inspection</p> <p>The supervisory authority carries out on-site inspections to examine the business of an insurer and its compliance with legislation and supervisory requirements.</p>
Description	<p>Under Section 36 and Schedule 5 of the IA 2008, the IPA has wide-ranging powers to inspect and investigate the books, records, documents, and transactions of an authorized insurer—and a former insurer, applicant or persons who the IPA considers may be conducting insurance business without authorization. It can also make a request for specific information, require a person to attend before it and obtain a search warrant.</p> <p>The IPA undertakes on-site inspection work, to verify information provided in returns, to investigate areas of concern and to assess risks. Its program of on-site work for life insurance companies has been focused on AML issues in recent years, reflecting the high priority given to ensuring compliance in this area. The program has also been affected by staff shortages. However, the IPA is now staffed to begin a program of wider on-site work with life companies with the objective of visiting each over the next two to three years.</p> <p>The relatively small number of companies will enable the IPA to take the same approach to each company, whereas a more tailored approach is planned for the larger number of generally lower priority captive insurance companies.</p> <p>The IPA has powers to engage external experts at the insurer’s expense to investigate particular matters. It is able in practice to achieve the same result through discussion and suasion and has not had to exercise its formal powers.</p> <p>Findings are communicated on-site and by written report to the insurer’s senior management. A response is required and action points are followed up.</p>
Assessment	Largely Observed
Comments	<p>The IPA has a well-structured approach to on-site work with extensive internal guidance on, for example, procedures and template letters. While its work to date has been driven by the high priority given to AML compliance, it is now starting to broaden the on-site program to cover all aspects of all life companies’ business over the next few years. This is a necessary and significant enhancement in on-site work that will require careful management to avoid resourcing strains.</p> <p><i>Over time, the IPA may benefit from a more formal approach to scoring companies for the purposes of the on-site work and in developing an overall view of the firm (see comment on ICP12).</i></p>

Principle 14.	<p>Preventive and Corrective Measures</p> <p>The supervisory authority takes preventive and corrective measures that are timely, suitable and necessary to achieve the objectives of insurance supervision.</p>
Description	<p>The IPA has a range of preventive and corrective powers and procedures. It would normally start with supervisory dialogue to agree that there is a cause for concern and on the need for, and nature of, remedial action. If a firm is unresponsive, it has powers to impose conditions on its authorization—this power in particular has been used in a number of cases.</p> <p>In the event of a breach of the required minimum solvency level, the IPA can in the first instance require a remedial scheme (see ICP 16).</p>
Assessment	Observed
Comments	<p>The IPA’s approach is informed by its ability to communicate regularly with the small number of authorized insurance companies and captive managers, all of which are based on or close to Douglas, where the IPA has its offices. This makes it easy to address concerns in the first instance through supervisory dialogue and discussion. However, the IPA also has powers that it has used in practice to make more formal requirements of firms in the event of actual or expected concerns.</p>
Principle 15.	<p>Enforcement or sanctions</p> <p>The supervisory authority enforces corrective action and, where needed, imposes sanctions based on clear and objective criteria that are publicly disclosed.</p>
Description	<p>The IPA has extensive powers to intervene in the business of an authorized insurer and to impose sanctions. It can impose conditions on a firm’s authorization, including preventing it from writing new business; it can require a firm to maintain assets in the IOM or transfer them to the custody of a bank; it can withdraw authorization; it can impose civil penalties—including on exempt persons, directors and controllers. It can attach conditions to the approval of individual functionaries and direct that an individual ceases to hold a particular position.</p> <p>In severe cases, the IPA, acting with the FSC, can take Companies Act proceedings to have an individual barred from acting as a director or holding.</p> <p>It has a residual power (Section 33 of IA2008) to impose any requirements on an insurer, which it believes justified to meet its Insurance Act objectives—which it would use, for example, if necessary to ensure that an insurer meets a particular level of minimum solvency. It may petition for the winding-up of an insurer.</p> <p>The IPA may also, under Section 35 of IA2008, make a public statement about an insurer if it has grounds to believe that the insurer has contravened a requirement or that “it is desirable to make such a statement for the protection of any person or class of persons.”</p>
Assessment	Observed
Comments	<p>The IPA rarely in practice uses its extensive formal powers. It has not imposed civil penalties and has not had to make use of its Section 33 fallback power to impose on an insurance company any requirement it feels is justified or its Section 35 power to make a public statement. However, the availability of these powers has been of importance to the IPA in reinforcing supervisory actions. Market perceptions are that the IPA is ready and willing to use formal enforcement powers where options for supervisory action have been exhausted or where serious breaches of its requirements have taken place.</p> <p><i>Despite its limited experience of using formal powers, the IPA could consider whether to develop a published policy on its approach to the use of its enforcement powers—for example, what criteria it would take into account in deciding when to use which power. The extension under the IA2008 of many of the powers it had formally in respect of insurance companies also to intermediaries</i></p>

	<i>may make such work timely.</i>
Principle 16.	<p>Winding-up and exit from the market</p> <p>The legal and regulatory framework defines a range of options for the orderly exit of insurers from the marketplace. It defines insolvency and establishes the criteria and procedure for dealing with insolvency. In the event of winding-up proceedings, the legal framework gives priority to the protection of policyholders.</p>
Description	<p>The IPA has powers to withdraw the authorization of an insurer under Section 9, IA2008, which also provides for the insurers to continue to effect existing contracts.</p> <p>In the event of a breach of solvency requirements, the IPA can require a firm to submit a financial scheme; failure to do so, or submission of an inadequate scheme, triggers a provision that treats the insurer as unable to pay its debts under the Companies Act, enabling the IPA to petition for the company’s winding up. Its winding-up powers are also triggered under Section 27 by a variety of other grounds, including a company’s failure to meet an obligation under the act, and where it is “expedient in the public interest that the company should be wound up.”</p> <p>Schedule 3 of the IA20089 sets out detailed provisions on insolvency and winding up. For insurers doing long-term business, this provides that: (i) no company may be wound up voluntarily; (ii) in a winding up, assets of the long term fund are available, bar any excess assets, only to long term policyholders; and (iii) the liquidator will carry on the long term business with a view to transferring it to another insurer. In addition, the liquidator has powers to vary the terms of long term contracts and to apply to the court for appointment of a special manager.</p> <p>All life insurance policyholders are, in addition, protected under the Life Assurance (Compensation of Policyholders) Regulations 1991 which provide for 90 percent of the liability of an insolvent insurer to be met. The Policyholders Compensation Scheme is managed by the IPA. It funds itself by levies to meet payouts when required—there is no standing fund.</p> <p>There are no compensation arrangements for nonlife policyholders.</p>
Assessment	Observed
Comments	The framework clearly provides for appropriate routes for orderly exit, sets out the procedures for dealing with insolvency and for long-term business provides for mechanisms to protect policyholders as far as possible, particularly through transfer of policies to another insurer. The framework has not been tested in practice as no long-term insurer has failed nor has the IPA ever sought a winding up of any such insurer.
Principle 17.	<p>Group-wide supervision</p> <p>The supervisory authority supervises its insurers on a solo and a group-wide basis.</p>
Description	<p>Because most of the insurance business (other than captive insurance) in the IOM is conducted by companies from major overseas groups, the IPA is generally always a host supervisor of an insurance group or conglomerate. Insurers based on the IOM have only branches and no subsidiaries abroad, although there are affiliates abroad. There are no provisions in law to apply the IPA’s requirements on a group basis. Requirements apply and supervision is carried out on a solo basis only.</p> <p>The IPA does cooperate actively with home supervisors. As mentioned under ICP5, it exchanges information, usually under a number of bilateral MOUs, with other supervisors. It participates in joint visits by home supervisors to the IOM operations. The IPA assess the group structure of insurance companies on application for authorization and on an ongoing basis (using powers in respect of the controllers of authorized firms) and could withdraw authorization if it felt unable to carry out effective supervision.</p>

Assessment	Partially Observed
Comments	<p>The IPA is focused in its powers and procedures on supervision of the solo entity and cooperation with the supervisors of the parent group. In the majority of cases, this is sufficient to address risks in IOM authorized companies appropriately. But there are some cases—and could be more in the future—where it is appropriate for the IPA to carry out, or ensure that another regulator carries out, a test of group solvency, informed if possible by a wider assessment of the risks to the group. In the longer term, the IPA may think its responsibilities could most easily be met were it to have formal powers over, for example, holding companies of authorized insurance companies. Its approach could be kept under review as IAIS policy in the area of group supervision continues to develop.</p> <p><i>See recommendation in Table 2.</i></p>
Prudential Requirements	
Principle 18.	<p>Risk assessment and management</p> <p>The supervisory authority requires insurers to recognize the range of risks that they face and to assess and manage them effectively.</p>
Description	<p>As mentioned under ICP10, the IPA is in the course of developing a comprehensive Guidance Note covering risk assessment and risk management as well as corporate governance and related issues (DCG). It is expected to take effect in early 2009.</p> <p>There are no explicit requirements in the IA2008 itself, even at a high level. As for corporate governance, the IPA attaches importance to high standards in this area and covers risk management in supervision and enforcement work.</p>
Assessment	Largely Observed
Comments	Comments recorded on corporate governance under ICP 9 apply for ICP 18.
Principle 19.	<p>Insurance activity</p> <p>Since insurance is a risk-taking activity, the supervisory authority requires insurers to evaluate and manage the risks that they underwrite, in particular through reinsurance, and to have the tools to establish an adequate level of premiums.</p>
Description	<p>The IPA has no requirement that insurers have in place strategic underwriting and pricing policies.</p> <p>In its supervision of insurers, the IPA relies on reviews of the reports made by insurers, particularly the annual return, and on the requirement for insurers to pre-notify significant changes to their business plans, to assess insurance risks. The annual return, which is certified by directors and comes with a report by the actuary (Insurance Regulations 1986, Regulation 11 and Schedule 6), includes an analysis of revenue by marine/aviation/transport, motor and liability classes of business, a schedule of retentions by class, a summary of reinsurance ceded or retroceded, and a claims settlement analysis for motor and sub-risks within the liability class of business.</p> <p>Insurers are also required to make a quarterly report covering, for example, premium income, commission and expenses, claims paid and outstanding, and amounts due from reinsurers. This can be waived, and is waived occasionally for captives.</p> <p>IPA staff then discuss with insurers developments in the reported data with a view to assessing, for example, the adequacy of pricing and reserving policies, and trends in expenses (for life insurers, expenses are also assessed in the context of the valuation of liabilities—i.e., the expense reserve). The information in the returns is also compared with the information on risk strategy and expected risk retention supplied in advance to and agreed with the IPA.</p> <p>The IPA reviews the nature and security of reinsurance arrangements through the annual return;</p>

	there is no equivalent quarterly reporting on reinsurance. There are no specific requirements aimed at ensuring the security of reinsurance (e.g., collateral). Instead, the IPA relies on supervision to challenge firms on the quality of reinsurance cover, taking into account the scale of the exposure and the nature of the reinsurers they are using (e.g., are they major international groups).
Assessment	Observed
Comments	The IPA has adequate powers and procedures to ensure insurance companies have the tools required to price business and manage their insurance risks appropriately.
Principle 20.	<p>Liabilities</p> <p>The supervisory authority requires insurers to comply with standards for establishing adequate technical provisions and other liabilities, and making allowance for reinsurance recoverables. The supervisory authority has both the authority and the ability to assess the adequacy of the technical provisions and to require that these provisions be increased, if necessary.</p>
Description	<p>All insurers are required under Section 14 of IA2008 to draw up accounts in accordance with Companies Act requirements and generally-accepted accounting principles, which the Companies (Amendment) Bill states should be U.K. GAAP or IFRS. Most companies in the IOM, in practice, use U.K. GAAP. They are then required to submit supplementary information to the IPA according to the Insurance Act Regulations.</p> <p>For life companies, there are additional, more detailed requirements set out in the Insurance (Valuation of Long Term Liabilities) Regulations 2007. These provide for the company to make prudent provision for possible adverse variation in the value of obligations under insurance contracts, for the actuary to have due regard to the fair treatment of policyholders, for the valuation of liabilities for groups of contracts to be sufficient to avoid future valuation strain if underlying assumptions are not borne out in practice, for the actuary to take credit for future premium due and for a provision to be established if there is uncertainty over the accuracy and completeness of data. The regulations set out some factors to be included in the calculation of liabilities—mentioning that future bonuses and discretionary benefits are to be treated as liabilities, for example.</p> <p>The IPA, with support from actuarial consultants (see ICP 12) reviews compliance with these requirements in the context of its assessment of the annual return. Supervisors who have concerns over the adequacy of technical provisions resulting from the valuation of liabilities would normally raise these for discussion and agreement with firms. If agreement cannot be reached, the IPA would use its powers to set requirements in relation to an individual firm to ensure that additional provisions are made.</p> <p>The Insurance (Valuation of Long Term Liabilities) Regulations 2007 include requirements on life reinsurance. For non-life companies, valuation of reinsurance must comply with the applicable accounting standards, which require publication of claims on both a gross (i.e., before credit is taken for reinsurance) and net basis.</p> <p>There is no explicit requirement at present that firms undertake stress tests. This will be introduced with the DCG. In practice, firms do conduct stress tests—as a way of meeting the general requirement for prudent valuation of liabilities (which includes tests for resilience to certain shocks) and in assessing solvency margins. The IPA reviews the results of these tests in its normal supervision.</p>
Assessment	Observed
Comments	IPA has a developed framework of requirements for the establishment of adequate provisions and has engaged supervisory staff and actuarial consultants to work together on the assessment of individual firms' provisions.

Principle 21.	<p>Investments</p> <p>The supervisory authority requires insurers to comply with standards on investment activities. These standards include requirements on investment policy, asset mix, valuation, diversification, asset-liability matching, and risk management.</p>
Description	<p>The IPA regulates insurers' investments via the valuation and solvency requirements (for life business, the Insurance (Valuation of Long Term Liabilities) Regulations 2007 and for nonlife, Regulation 13 and Schedule 7 of the IA86 Regulations). Life companies are required to have regard to their investments and investment policy when determining liabilities.</p> <p>Non-life companies are subject to admissibility limits that prescribe in detail the extent to which they can use particular asset types and classes in calculating whether they meet their required solvency margin. Valuation of assets for these purposes is as required for accounting purposes—so either U.K. GAAP (used in practice by most companies) or IFRS are adopted.</p> <p>This approach is based on existing EU regulation—Solvency I. As set out under ICP 23, the IPA requires firms to meet solvency requirements significantly above the EU minimum in practice. The IPA has not followed some other regulators in enhancing Solvency I requirements to make them more risk sensitive ahead of Solvency II taking effect—for example, by removing some of the prudent margins in reserving requirements. It will consider how to respond to the EU's Solvency II initiative when the new directive is closer to being finalized, seeking to balance use of the flexibility it has by not being subject to EU directives with the advantages of being seen to implement the most advanced solvency standards.</p> <p>General Companies Act requirements impose an obligation on directors to ensure the safekeeping of investments.</p> <p>There are no requirements for insurers to have an “overall strategic investment policy” or that risk management systems cover risks relevant to the calculation of solvency (essential criteria (c) and (d)). The proposed DCG will include standards.</p> <p>In the course of its supervision, the IPA checks that insurers have adequate controls over assets. The IPA would also respond to issues raised by the auditor of an insurer in its report to management on control issues arising from the audit. A particular focus for the IPA is the insurer's management of outsourcing of investment and custodial functions—a practice common to many insurers.</p> <p>The IPA relies on the requirements for approval of key functionaries (see ICP 7) to ensure staff with the necessary competence and integrity are engaged to handle the firm's assets.</p> <p>There are no requirements specifically for: (i) audit work, whether by an internal department or otherwise, to address investment activities; and (ii) asset and liability matching, other than the valuation requirements applying to life insurance that require insurers to take into account the relationship between a liability and the matching asset when valuing liabilities; and (iii) contingency plans to mitigate the effect of deteriorating conditions. But the IPA considers that the effect of the valuation and solvency requirements generally, supplemented by the Financial Condition Reports which insurers undertake and which are discussed with supervisors, is to make insurers aware of and responsive to deteriorating conditions.</p> <p>On stress-tests, see ICP 20.</p>
Assessment	Observed
Comments	IPA has an adequate framework of requirements on insurers' investments.

	<i>The IPA could consider developing their approach to the use of Financial Condition Reports for assessing the risks in life insurance companies and how they are managed—for example, clarifying to the industry the criteria it uses to decide when to call for an FCR and what firms should expect from such an assessment.</i>
Principle 22.	<p>Derivatives and similar commitments</p> <p>The supervisory authority requires insurers to comply with standards on the use of derivatives and similar commitments. These standards address restrictions in their use and disclosure requirements, as well as internal controls and monitoring of the related positions.</p>
Description	<p>There are few specific requirements in relation to derivatives and in particular no requirements on risk management issues (see ICP 18). The IPA’s approach reflects the relatively limited use of derivatives in insurance business in the Island and their reliance on a supervisory approach, supported by general accounting standards and their own supplementary reporting requirements.</p> <p>A number of guidance notes have been issued for life insurers on their use of derivatives.</p> <p>For disclosure, the IPA relies on its accounting and valuation standards. The Insurance (Valuation of Long Term Liabilities) Regulations 2007 prescribe the disclosure of options and guarantees.</p> <p>There are no explicit requirements that: (i) boards of insurers satisfy them on the adequacy of expertise in this area; (ii) insurers have a policy for the use of derivatives approved by the board; (iii) insurers have in place risk management systems and internal controls for derivatives activities; (iv) insurers have adequately skilled staff to vet models and verify pricing independently; and (v) insurers have audit procedures for derivatives. Instead, the IPA relies on other requirements that it sets itself, for example that insurers manage their business with prudence and skill, or which are set by others and which it has decided it can rely upon, for example the accounting and auditing standards.</p> <p>The DCG will set out the IPA’s expectations in these areas in detail for the first time.</p>
Assessment	Largely Observed
Comments	The use of derivatives by insurers in the IOM is limited to life insurers. In this context, the approach of the IPA to focus on the major area of risk is appropriate. As for a number of other ICPs, the introduction of the DCG will helpfully set out the IPA’s expectations in these areas in detail.
Principle 23.	<p>Capital adequacy and solvency</p> <p>The supervisory authority requires insurers to comply with the prescribed solvency regime. This regime includes capital adequacy requirements and requires suitable forms of capital that enable the insurer to absorb significant unforeseen losses.</p>
Description	<p>The solvency regime for all types of insurer is set out in Section 12 of the IA2008 and in Regulation 13 and Schedule 7 of the 1986 Regulations.</p> <p>The IPA defines the types of capital eligible to meet the solvency margin requirement in two tiers: the first is shareholders’ equity as defined in accounting standards; Tier 2 comprises any item which the IPA has agreed can be treated as capital because it has characteristics similar to Tier 1. The IPA permits insurers to treat letters of credit and guarantees from a bank as eligible capital (“secondary capital”) on application by a firm. But firms have to apply for IPA agreement and it will normally give consent only to captive insurers.</p>

	<p>The calculation of minimum solvency margins are set out in the regulations—differentiated by type of business such that the requirements for captives are lower than those applying to life insurance and the requirement for linked business is lower than for other life business. In practice, the IPA expects (and can formally require) insurers to hold a margin higher than the minimum set out in the regulations. For life companies, the minimum is (at least) twice the amount specified in the regulations. For nonlife insurers, it is an amount equal to the maximum loss in any one event which the insurer could sustain on its largest individual risk, plus allowances for losses in other lines and for expenses.</p> <p>The IPA monitors actual capital levels against its requirements using the regular returns. Where capital falls below the minimum adequate level, it responds by holding discussions with the firm and may: (i) require more frequent reporting; or (ii) use its powers under Section 13 of IA2008 to request a short-term financial scheme; where a scheme is not provided or is inadequate, the insurer is deemed as unable to pay its debts, triggering the powers in IA2008 enabling the IPA to petition for the its winding-up; or (iii) under Section 8 attach a condition to the firm’s authorization requiring it to hold a certain level of capital.</p> <p>The IPA monitors forward-looking capital projections of life insurers through a requirement that insurers submit a three-year plan with each set of annual returns. Nonlife insurers are required to submit such a plan only on applying for authorization. Insurers regularly develop Financial Condition Reports as part of their internal solvency monitoring. As mentioned under ICP 21, these may be reviewed by the IPA supervisors but do not have to be submitted to them.</p> <p>The IPA does not benchmark or compare its approach against other regulators other than the United Kingdom. It monitors EU developments closely.</p>
Assessment	Observed
Comments	The IPA has a well-founded framework of solvency regulations that combine a hard minimum with a flexible approach to setting higher minimum requirements for individual firms to reflect their risk profiles. It has well-defined processes to monitor actual capital levels and to respond to breaches of minimum requirements. The IPA will need to consider in due course its response to Solvency II and wider international developments, taking into account resource implications.
Markets and consumers	
Principle 24.	<p>Intermediaries</p> <p>The supervisory authority sets requirements, directly or through the supervision of insurers, for the conduct of intermediaries.</p>
Description	<p>Insurance intermediaries are regulated under IA2008. They are required to be authorized and IPA has the same powers in respect of insurance intermediation as it has for insurance business itself, including the power to act against intermediation business being conducted without authorization and powers to exchange information with other regulators. However, intermediaries conducting only life insurance business are exempt from authorization under the IA2008—they are likely to require authorization under the Financial Services Act 2008 and subject, if so, to the extensive requirements of the FSC. Intermediaries authorized in the United Kingdom and nonresident in the IOM are also exempt.</p> <p>Regulations set out the detailed requirements for intermediaries (the “common trading practices”), including (in Schedule 3 of the IIR 1999) requirements for intermediation business such as high standards of professional conduct and adequate skills.</p> <p>Paragraph 4 of Schedule 3 of the Regulations requires that client money is held in a designated client’s account. Paragraph 1 (a) (iii) requires the intermediary to disclose its status to the customer.</p> <p>Professional Indemnity Insurance is a requirement of all authorized intermediaries. They are not</p>

	required to hold any particular level of financial resources. This approach will be kept under review in the light of developments in the United Kingdom (the Retail Distribution Review).
Assessment	Observed
Comments	<p>There are extensive requirements applying to intermediaries under the IPA (general insurance) and FSC (life insurance) regimes. The IPA's powers over general insurance intermediaries have been extended under the IA2008.</p> <p><i>While there have not been significant cases of financial failure of intermediaries (and business volume is low), the IPA should keep under review whether reliance on Professional Indemnity Insurance is sufficient to protect consumers from the potential impact of an intermediary failing.</i></p>
Principle 25.	<p>Consumer protection</p> <p>The supervisory authority sets minimum requirements for insurers and intermediaries in dealing with consumers in its jurisdiction, including foreign insurers selling products on a cross-border basis. The requirements include provision of timely, complete and relevant information to consumers both before a contract is entered into through to the point at which all obligations under a contract have been satisfied.</p>
Description	<p>There are limited existing specific business conduct requirements for insurance companies. Actuaries are required to take account of the fair treatment of policyholders in the valuation of insurance liabilities. There are extensive requirements relating to the handling of complaints—related to the existence of the Financial Services Ombudsman Scheme, administered by the Office of Fair Trading.</p> <p>However, full requirements on insurance companies will be set out in the DCG. These include requirements for due skill, care and diligence, a requirement for policies on treating customers fairly and on seeking information from customers- and the other matters covered in ICP25. It will require insurers to maintain adequate procedures and provide training to staff.</p> <p>Intermediaries are subject to the requirements of the IIR 1999 regulations—see above under ICP24.</p> <p>There is also an compensation scheme for life insurance policyholders—see ICP16.</p>
Assessment	Largely Observed
Comments	As mentioned under ICP10, the IPA is in the course of developing a comprehensive guidance note that will cover market conduct as well as corporate governance and related issues (DCG). It is expected to take effect in early 2009. There are no explicit requirements in the IA2008 itself, even at a high level. As for corporate governance, the IPA attaches importance to high standards in this area and covers market conduct in supervision and enforcement work.
Principle 26.	<p>Information, disclosure & transparency towards the market</p> <p>The supervisory authority requires insurers to disclose relevant information on a timely basis in order to give stakeholders a clear view of their business activities and financial position and to facilitate the understanding of the risks to which they are exposed.</p>
Description	The IPA has no requirements on disclosure by IOM authorized insurance companies of any of the information specified in this ICP. Firms are required to produced annual audited accounts and to submit these (and quarterly information) to the IPA, but these do not have to be lodged with the Companies Registry or otherwise made public. The IPA cannot publish the returns itself as to do so would conflict with its obligation to keep confidential the information provided to it by firms for supervisory purposes.

	<p>Where the insurance company authorized in the IOM is part of an overseas insurance group, information on the group's financial position, risks and so on will be available in the group's accounts, which may also contain information on the IOM operations.</p> <p>For captives, IAIS guidance on the regulation of captive insurance suggest that the ICP 26 disclosure requirements should not apply to these firms.</p>
Assessment	Not Observed
Comments	<p>The IPA is engaged with the insurance industry and in particular the local actuarial society on the development of standards for disclosure of financial information on IOM insurance companies. It is not yet clear when this may result in requirements taking effect (although progress in producing proposals in this regard is expected in the first half of 2009). The IPA could also consider putting itself in a position where it can publish supervisory returns itself.</p> <p>The authorities and the industry note that many firms are ready and willing to provide such information already to policyholders, financial advisers and other stakeholders on demand; and that information on IOM companies is included in commercial reporting systems/databases (although participation in such systems is voluntary).</p> <p><i>See recommendation in Table 2.</i></p>
Principle 27.	<p>Fraud</p> <p>The supervisory authority requires that insurers and intermediaries take the necessary measures to prevent, detect, and remedy insurance fraud.</p>
Description	<p>Because the reduction of financial crime, widely defined, is one of the IPA's objectives in law, its full range of powers can be used to make and enforce requirements in relation to fraud—on insurers, managers, and intermediaries. Penalties, including for claims fraud, are also available under the criminal law. The IPA is also required, under Section 2 (f) of the IA2008 to have regard to the desirability of insurers taking appropriate measures and allocating resources to prevent crime.</p> <p>IPA has no explicit requirements addressed to insurers in relation to their resources, procedures and controls to deal with fraud. It does not require insurers to report fraud to appropriate authorities. Instead, the IPA looks to firms to comply with its general requirements on prudent conduct (and the fit and proper test for managers) and includes financial crime issues in its supervision of insurers. It can take, but has not had occasion to take, enforcement action for a breach of these requirements in relation to weak controls over fraud.</p> <p>The IPA has policies, powers, and procedures for cooperating in full with other supervisory authorities on countering fraud.</p>
Assessment	Largely Observed
Comments	While the IPA has a range of powers to ensure that insurance companies address fraud risks (and it covers the issues in supervisory work), it needs to introduce standards on internal controls. The proposed new guidance on corporate governance will deliver these.

Anti-money laundering, combating the financing of terrorism	
Principle 28.	Anti-money laundering, combating the financing of terrorism (AML/CFT) The supervisory authority requires insurers and intermediaries, at a minimum those insurers and intermediaries offering life insurance products or other investment related insurance, to take effective measures to deter, detect, and report money laundering and the financing of terrorism consistent with the Recommendations of the FATF.
Description	<p>Insurers, managers and intermediaries are subject to the general law on AML (Criminal Justice (Money Laundering) Code 2007). In addition, there are separate requirements for insurers, the Insurance (Anti-Money Laundering) Regulations, 2008. The IPA has also issued guidance notes for life insurance—the Guidance Notes on Anti-Money Laundering and Preventing the Financing of Terrorism for Insurance Businesses (Long Term Business).</p> <p>The IPA’s powers to supervise insurers, managers and intermediaries and enforce its requirements are all available for use on issues relating to AML/CFT as are its general powers to cooperate with other agencies, domestic and overseas. The IPA has taken supervisory action to enforce compliance with its requirements, including one case where external experts were appointed to review a firm’s AML compliance and controls, leading to extensive remedial measures.</p> <p>AML/CTF issues are covered in a rolling program of on-site visits, which include sample testing. For long-term insurance companies, AML issues have been the main focus on the on-site program in recent years, reflecting the priority given to improvement in standards in this area.</p> <p>In respect of the key FATF provisions, the requirements on AML/CTF include customer due diligence on customers—Regulation 9(1); enhanced measures with respect to higher risk customers—18(1); records retention for five years (Code Section 4(1)(a)(ii)); monitoring for complex transactions—Code Section 6(2)(c); reporting of suspicious transactions to the FIU (Criminal Justice Act 1990, Section 17K; internal programs (e.g., Regulation 36); and ensuring branches and subsidiaries meet home state requirements (Regulation 3(1) in particular).</p>
Assessment	Observed
Comments	The IPA has a well-developed set of requirements, especially (and appropriately) for life insurance business. It has also been making AML issues a priority for on-site supervision work. See also the IMF’s assessment, carried out in September 2008, of the IOM’s compliance with the FATF AML/CFT standards, using the 2004 Methodology.