



# Nevis Financial Services

Regulation and Supervision Department

# NEWSLETTER

## LICENSING & ONGOING SUPERVISORY FRAMEWORK FOR INSURANCE COMPANIES



Issue No. 42

May 2016

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### Overview

The Nevis International Insurance Ordinance Cap. 7.07 (NIIO) provides for the licensing of a wide range of insurance activities in the insurance market, namely: long term, captive, reinsurance, allied reinsurance, insurance managers, insurance brokers, insurance adjusters and registered agents in insurance. Licenses are approved to be issued as per the legal requirements of the Ordinance. Licensing requirements are put in place to prevent abuse and utilization of insurance services by criminal and unauthorized individuals and maintain a level of trust and stability where legitimate business is conducted. The licensing process plays an important role in screening out unwanted business that would be detrimental to the jurisdiction as certain business practices do not adhere to international standards.

The insurance industry, like other components of the financial system is changing in response to a wide range of social, technological and global economic forces. Insurance supervisory systems and practices must be continually upgraded to cope with these developments. Insurance and other financial sector supervisors and regulators should understand and address financial and systemic stability concerns arising from the insurance sector as they emerge and interact with other financial sectors.

A sound regulatory and supervisory system is necessary for maintaining a fair, safe and stable insurance sector for the benefit and protection of the interests of policyholders, beneficiaries and claimants, the jurisdiction as well as contributing to the stability of the financial system. One such organization supporting this philosophy is The International Association of Insurance Supervisors (IAIS) which sets the international standard for insurance supervisors and regulators within the insurance industry. The IAIS has developed principles, standards and guidelines for the supervision of entities within the sector, which together makes up the Insurance Core Principles (ICPs) which

are updated on a regular basis. As a result, our regulatory and supervisory framework takes into consideration the ICPs. The ICPs objectives are listed as:

- To ensure improved supervision of the insurance industry on a domestic as well as on an international level in order to maintain efficient, fair, safe and stable insurance markets for the benefit and protection of policyholders
- To promote the development of well-regulated insurance markets
- To contribute to global financial stability.

Another organization that the insurance sector must be governed by is the Financial Action Task Force (FATF). The FATF is an inter-governmental body that sets international standards for combating money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF also updates its standards on a regular basis with the last update occurring in 2012 when the FATF 40 Recommendations were published. The FATF recommendations and how they relate to our supervisory framework would be discussed in the next issue of our newsletter.

### NIIO compliance with IAIS

The Insurance Core Principles (ICPs) provide a globally accepted framework for the supervision of the insurance sector. The ICPs can be used to establish or enhance a jurisdiction's insurance supervisory system. They can also serve as the basis for assessing the existing supervisory system and in so doing may identify weaknesses, some of which could affect policyholder protection and market stability.

The Nevis Financial Services (Regulation and Supervision) Department believes in adhering to and in some cases surpassing international standards. To this end the Department as the competent authority for international insurance in Nevis has complied with most ICPs as set forth by the IAIS. The Department plans to continue utilizing IAIS' guidelines and other resources as they relate to the supervision of international insurance entities.

The ICPs that are highlighted in this newsletter are the most relevant, as they relate to our licensing and ongoing supervisory framework. The ICPs chosen are 4 and 9 which are

entitled Licensing and Supervisory Review and Reporting, respectively.

#### **ICP 4 - Licensing**

IAIS recommends that a legal entity which intends to engage in insurance activities must be licensed and the requirements for such licensing must be clear and objective. Sections 2, 6 and 8 of the NIIO clearly defines the different classes of regulated entities which are subjected to licensing as well as the requirements necessary to be considered a licensed entity within the jurisdiction. Key licensing guidelines under the NIIO are as follows:

- functional board members, senior management, shareholders and key persons are vetted to be fit and proper personnel within the proposed entity with the submission of adequate due diligence documents;
- capital requirements are satisfied;
- sound corporate structure and governance framework that does not hinder effective supervision; and
- sound business and financial plans.

Further, section 9 of the NIIO gives the Registrar of International Insurance the authority to deny a license where the applicant does not meet requirements, as well as impose additional requirements, conditions or restrictions where appropriate. Where the license is denied, given conditional approval or restricted, the applicant is notified in writing.

#### **ICP 9 - Supervisory Review and Reporting**

IAIS recommends that a risk-based approach to supervision be utilized for off-site monitoring and on-site inspections. Sections 8, 16, 18, 21 and 37 of the NIIO allow for supervision to take place using both off-site monitoring and on-site inspections to examine the business of each insurer, evaluate its condition, the quality and effectiveness of its board and senior management and compliance with legislation and supervisory requirements. The Registrar appraises the risks of insurers according to their nature, scale and complexity.

The NIIO gives the Registrar the authority to request that each insurer:

- maintains a framework for continuous monitoring and supervision of insurers based on on-going communication with the insurer, financial and statistical reporting and market analysis as well as any other information acquired;
- sets requirements for the submission of regular, systematic and comprehensive financial and statistical information,

actuarial reports, solvency position reports and other information from all insurers licensed in its jurisdiction. Regular, systematic and comprehensive financial information is required to be submitted annually and actuarial reports are to be submitted every three (3) years for a long term insurer;

- sets out principles and norms regarding accounting and consolidation standards to be used for supervisory reporting;
- reports any off-balance sheet exposures. International standards that have been adopted by the Registrar requires insurers to report any off balance sheet exposures;
- reports on their outsourced functions. However once the insurer is meeting its obligations the Registrar does not require them to report on outsourced functions; and
- maintains ongoing communication with respect to any material change of the entity.

#### **Active International Insurance Entities**

<b>Insurance Company Types</b>	<b>No. Active</b>
<b>Captive Insurance</b>	292
<b>General Insurance</b>	3
<b>Reinsurance</b>	23
<b>Long Term Insurance</b>	4
<b>Allied Reinsurance</b>	30
<b>General/ Reinsurance</b>	1
<b>Insurance Manager</b>	18
<b>Insurance Broker</b>	3
<b>Total</b>	<b>374</b>

Table 1: Insurance Companies active as at 31 May 2016

To be continued in next issue:

- Compliance with FATF's AML/CFT Recommendations

#### **Source**

\* *The Nevis International Insurance Ordinance Cap. 7.07*

\* *Insurance Core Principles (Updated November 2015) at <http://www.iaisweb.org/page/supervisory-material/insurance-core-principles>*

