INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

INSURANCE CORE PRINCIPLES, STANDARDS, GUIDANCE AND ASSESSMENT METHODOLOGY

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AND
COMFRAME MATERIAL
INTEGRATED INTO ICPS 9 AND 10

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ICP 9 Supervisory Review and Reporting

The supervisor uses off-site monitoring and on-site inspections to: examine the business of each insurer; evaluate its financial condition, conduct of business, corporate governance framework and overall risk profile; and assess its compliance with relevant legislation and supervisory requirements. The supervisor obtains the necessary information to conduct effective supervision of insurers and evaluate the insurance market.

Introductory Guidance

9.0.1 This ICP focuses on the general processes and procedures supervisors should have in place with respect to supervisory review and reporting. For the purpose of this ICP, off-site monitoring and on-site inspections are collectively referred to as "supervisory review". Aspects of what supervisors may require or assess as part of supervisory review and reporting on specific areas (such as solvency, governance, conduct of business) are dealt with in other ICPs with respect to those ICPs' specific areas of focus.

9.0.2 Supervision is a dynamic process that includes:

- developing and implementing a framework for supervisory review and reporting;
- developing and executing supervisory plans for insurers;
- analysis of reported and other relevant information;
- feedback;
- intervention, including any preventive/corrective measures or sanctions, where necessary;
- follow-up (including updating the supervisory framework and/or adjusting the intensity of assessment under supervisory plans); and
- cooperation and coordination with other relevant supervisors and authorities where necessary.

CF9.0a **The group-wide supervisor, in cooperation with other involved supervisors, carries out a supervisory review to assess the IAIG's compliance with the relevant legislation and supervisory requirements which apply at the level of the IAIG.**

CF9.0b **The group-wide supervisor engages with the Head of the IAIG in order to assess how it is ensuring that the relevant legislation and supervisory requirements which apply at the level of the IAIG are met.**

Framework for supervisory review and reporting

9.1 The supervisor has a documented framework which outlines its approach for supervisory review and reporting. The supervisor reviews periodically that this framework remains effective and adequate.

9.1.1 While the framework should encompass all insurers within a jurisdiction, it should be sufficiently flexible with varying supervisory review and reporting requirements. For example, the supervisory processes and activities which are appropriate for a complex, internationally active insurer may be different than those for a small, local insurer.

9.1.2 The supervisor should have documented procedures and/or guidelines for consistent and regular supervisory review and reporting at an appropriate level of depth.

9.1.3 The supervisor should be able to process data in a timely and effective way and have processes and procedures to collect and store reported data securely in an electronic format.

9.1.4 The framework should enable the supervisor to coordinate on-site inspection and off-site monitoring activities. The supervisor should document the results of these activities in such a way that they are accessible and comprehensible to all involved staff.

9.1.5 The supervisor should establish both qualitative and quantitative methods for assessing insurers, in a consistent manner and on an on-going basis. The supervisor should develop monitoring tools to identify potential risks within or affecting the insurer or its customers in a timely manner.

9.1.6 The framework should enable the supervisor to evaluate the insurer’s financial condition, conduct of business and corporate governance framework to determine the insurer’s overall risk profile. The supervisor should compare the risk profile of the insurer with its risk-carrying capacity and seek to detect issues that may adversely affect its capacity to meet obligations towards policyholders. In order to achieve this objective, the supervisor should: review the insurer’s corporate culture, business objectives and strategies and business models; and evaluate the effectiveness and/or appropriateness of at least the insurer’s:

- current and prospective solvency, including assets and liabilities and off-balance sheet commitments;
- capital resources management;
- technical operations (e.g. actuarial methods, underwriting policy, reinsurance policy);
- treatment of customers and whether any activities being engaged in are not fair, lawful or proper;
- the systems of risk management and internal controls;
- organisational structure; and

- compliance with supervisory requirements.

9.1.7 The framework should enable the supervisor to analyse trends and compare risk assessments including against any stress test outcomes. The supervisor should assess the adequacy and soundness of the insurer's enterprise risk management framework for the identification and quantification of risks, and evaluate whether business activities and/or internal practices/processes reflect the insurer's risk assessment.

9.1.8 The framework should include assessments of the potential impact an insurer's failure would have on policyholders, the insurance market, and the financial markets as a whole.

9.1.9 The framework should include sufficiently comprehensive and regular communication between the supervisor and insurers. This communication should involve senior level representatives as well as specialised areas within both the supervisor and insurers, and may include contact with non-regulated and parent entities. Additionally, there should be appropriate communication channels between the supervisor and the external auditors for the exchange of information relevant to carrying out their respective statutory responsibilities.

9.1.10 The framework should promote pro-active and early intervention by the supervisor, in order to enable the insurer to take appropriate action to mitigate risks and/or minimise current or future problems.

Review of the Framework

9.1.11 The supervisor's review of its framework for supervisory review and reporting should pay due attention to the evolving risks which may be posed by insurers and to risks to which insurers may be exposed.

9.1.12 As part of the framework review, the supervisor should confer regularly both internally and with other relevant authorities so that all relevant information is being appropriately assessed and analysed, and to facilitate the identification of potential new risks or emerging market trends that the framework may need to address.

9.1.13 The framework for supervisory review and reporting should be suitably flexible so that it may adapt easily and in a timely manner to domestic and global developments in, for example, legislation, the insurance and broader financial markets, or international standards.

Group Perspectives

9.1.14 The framework for supervisory review and reporting by the group-wide supervisor should cover all entities identified within the scope of the insurance group (see ICP 23 Group-wide Supervision). While insurance groups may have different approaches to governance structures – either more centralised or more decentralised – the framework should include appropriate tools for supervisory review and reporting for all relevant entities (see Issues Paper on Approaches to Group Corporate Governance).

9.1.15 Although the supervisor may not have the power to conduct supervisory review and reporting of non-regulated entities, it should assess, at a minimum, the potential adverse impact on the insurer of such non-regulated entities.

9.1.16 Similarly, where the group-wide supervisor does not have the power to conduct supervisory review and reporting of a group entity in another jurisdiction, it should communicate and coordinate with the host supervisor accordingly. For example, the group-wide supervisor could approach the host supervisor to propose a joint on-site inspection or recommend that the host supervisor undertake such an inspection, when deemed necessary.

9.2 As part of the supervisory framework, the supervisor develops supervisory plans which set priorities and determine the appropriate depth and level of off-site monitoring and on-site inspection activity.

9.2.1 A supervisory plan is a tool for supervisors to determine the frequency, scope and depth of supervisory review activities. It could be generic (e.g. addressing categories or groups of insurers) or specific (addressing individual insurers).

9.2.2 In establishing a supervisory plan, the supervisor should assess and determine the key areas of risk to which insurers are exposed or risks which insurers may pose, using its judgement and the information, methodologies and tools at its disposal.

9.2.3 The circular nature of the supervisory framework provides a variety of inputs to help develop and/or adjust supervisory plans. For example, market analyses, internal models, insurers' own risk and solvency assessments (ORSA), horizontal reviews, stress/scenario testing, previous risk and conduct assessments, work of external auditors and information gathered as a result of supervisory reporting requirements provide information the supervisor should use as input in determining the scope and frequency of off-site monitoring and on-site inspections.

Group-wide supervisory plan and risk assessment

CF9.2a The group-wide supervisor’s supervisory plan for an IAIG includes a group-wide risk assessment which is conducted at least annually.

CF9.2a.1 The group-wide risk assessment is conducted with inputs from the supervisory process.

CF9.2a.2 The group-wide supervisor should consider the results of the IAIG’s enterprise risk management framework and the IAIG’s ORSA assessment, as part of the group-wide risk assessment.

CF9.2a.3 The group-wide supervisor should rely on information gathered on legal entities within the IAIG from other involved supervisors as another basis for the assessment of group-wide risk. Where other involved supervisors identify risks that may be relevant to the supervision of the IAIG at the group level, they should share their individual risk assessment.

CF9.2a.4 The group-wide supervisor should consider inputs from other relevant supervisors not involved in the direct supervision of the IAIG (e.g., macro-prudential analysis, anti-money laundering or combatting the financing of terrorism inputs).

CF9.2a.5 The group-wide supervisor should conduct a peer-group analysis to provide information relevant to the group-wide risk assessment, in cooperation with group-wide supervisors of other IAIGs where possible. Peer-group analysis should be subject to confidentiality requirements. In conducting peer group analysis, the group-wide supervisor should consider things such as:

- identifying market-wide risks and assessing the impact of such risks on the IAIG;
- comparing and identifying good risk management practices among IAIGs;
- the similarity of business models;
- the size, type and structure of IAIGs; and
- the similarity in geographic scope.

Information in the public domain could be used for the purposes of the peer-group analysis.

CF9.2b The group-wide supervisor's group-wide risk assessment of the IAIG includes, at a minimum:

- **the complexity of the IAIG group structure and the resultant risk;**
- **non-regulated and non-financial entities within the IAIG;**
- **a comparison of the risk profile of the IAIG with its risk-carrying capacity to identify matters which may adversely affect its capacity to meet obligations towards policyholders in the long term;**
- **the adequacy and outcomes of the IAIG's stress testing;**
- **the capital adequacy and the availability of capital to meet group-wide capital requirements as well as the regulatory capital requirements for each insurance legal entity within the IAIG;**
- **the macro-prudential environment in which the IAIG operates;**
- **a review of the IAIG's approach to its legal and regulatory obligations, its distribution model and its proposals for dealing with specific areas of risk;**

- **an analysis of the adequacy and soundness of the IAIG's enterprise risk management framework for the identification and quantification of risks including an evaluation of whether business activities and internal processes reflect the IAIG's risk assessment;**
- **an evaluation of existing and prospective risks, and how these are reflected in the IAIG's business plans and strategy;**
- **the effectiveness of the corporate governance framework;**
- **an assessment of the potential impact that the IAIG's failure would have on policyholders, the insurance market, and the financial markets as a whole.**

Complexity

CF9.2b.1 An IAIG is likely to have a complex operating structure that spans multiple jurisdictions, especially where it has operations which span different financial sectors. As such, the group-wide supervisor's group-wide risk assessment should consider:

- aggregated risk exposures that the IAIG has towards external counterparties, which can arise from direct and indirect exposures, on-balance and off-balance sheet items, regulated and unregulated entities within the IAIG, the same or different financial sectors across the IAIG, or a combination or interaction of such exposures. The group-wide supervisor should evaluate if the Head of the IAIG has adequate oversight and has implemented an adequate risk management system to assess its aggregated credit, market, insurance and liquidity risk concentrations. Such risk concentrations should be viewed in the context of single or closely related drivers of risk that may have material impact on the IAIG;
- increased operational risk where the IAIG relies on significant cross-border services or support. Such cross-border activity can also increase the complexity of recovery and resolution planning. The group-wide supervisor should evaluate the effectiveness of the IAIG's policies, processes and systems, and assess whether the IAIG has adequate business continuity plan arrangements, to mitigate such cross-border operational risk; and
- significant intragroup transactions (e.g. insurance or reinsurance, intragroup guarantees, commitments, derivative transactions or off-balance sheet transactions) which can give rise to contagion effects within the IAIG, or result in a circumvention of sectoral regulatory requirements. The group-wide supervisor should evaluate whether the Head of the IAIG has adequate oversight over all material intragroup transactions.

Non-regulated and non-financial entities

CF9.2b.2 In conducting the group-wide risk assessment, the group-wide supervisor should also take into consideration the activities undertaken by non-regulated entities within the IAIG. Non-regulated entities' contribution to group capital adequacy could be assessed by calculation of a proxy capital requirement as if the entity were regulated or through deduction of the group's interest in the unregulated entity. Where risk has been transferred from regulated to unregulated entities in a group, supervisors of the regulated entities should look through to the overall quantum and quality of assets in the unregulated entity. The risk assessment should address third party participations and minority interests.

Stress testing

CF9.2b.3 In conducting the group-wide risk assessment, the group-wide supervisor should evaluate the results of the IAIG's group-wide stress test, taking into consideration the severity of the stress scenarios in each of the IAIG's major operating jurisdictions, as well as the extent of interaction within the IAIG's different businesses.

Capital Adequacy

CF9.2b.4 In conducting the group-wide risk assessment, the group-wide supervisor should assess the adequacy of an IAIG's capital position on a group-wide basis against the ICS as implemented in the jurisdiction of the Head of the IAIG. The role of the group-wide supervisor in conducting and coordinating this assessment is particularly important in cases where the IAIG has a mixture of insurance, banking and securities sector operations. In coordination with other involved supervisors, the group-wide supervisor should also assess the availability of capital in meeting the regulatory capital requirements for each insurance legal entity of the IAIG in each jurisdiction.

CF9.2b.5 The group-wide supervisor should identify situations which may give rise to double or multiple gearing. Such situations could occur within IAIGs which are not fully consolidated and when one entity holds regulatory capital issued by another entity within the IAIG, where the issuer is permitted to include the capital in meeting its own regulatory requirements. These situations can result in an overstatement of group capital. The group-wide supervisor should require that the capital adequacy assessments of the IAIG exclude intra-group holdings of regulatory capital if not performed on a fully consolidated basis.

CF9.2b.6 The group-wide supervisor, in cooperation with other involved supervisors, should conduct an assessment of the fungibility of capital — that is its ability to absorb losses arising anywhere in the IAIG as needed. In such instances, the group-wide supervisor should take into account regulatory, legal and other requirements which may affect the IAIG's ability to transfer capital between entities, sectors and jurisdictions, both on a going-concern basis and in a crisis.

Macro-prudential analysis

CF9.2b.7 In conducting the group-wide risk assessment, the group-wide supervisor (with input from other relevant supervisors) should take into consideration the current and forecast business and the macroeconomic environment in all the material jurisdictions that the IAIG operates in, and assess the cumulative potential impact on the operations of the IAIG. This macro-prudential analysis should also be incorporated into forward-looking stress testing to identify possible events or changes in market conditions that could adversely impact the IAIG's group financial position.

9.3 The supervisor reviews any outsourced material activities or functions to the same level as non-outsourced material activities or functions.

9.3.1 The supervisor should review any outsourced material activities or functions through the insurer itself, but should also obtain information from, and conduct on-site inspections of, entities engaged in providing outsourced activities or functions for the insurer, where necessary.

9.3.2 The supervisory review process for outsourced material activities or functions may differ from the process used for insurers, provided that the outcomes are the same.

9.3.3 Agreements between the insurer and entities providing the outsourced activities or functions should be drawn up in such a way that the supervisor's ability to conduct its review is not restricted.

Supervisory reporting

9.4 The Supervisor:

- **establishes documented requirements for the regular reporting of qualitative and quantitative information from all insurers licensed in its jurisdiction;**
- **defines the scope, content and frequency of the information to be reported;**
- **sets out the relevant accounting and auditing standards to be used;**
- **requires that an external audit opinion is provided on annual financial statements;**
- **requires insurers to report on any material changes or incidents that could affect their condition or customers;**

- **requires insurers to correct inaccurate reporting as soon as possible; and**
- **requires more frequent reporting and/or additional information from insurers as needed.**

9.4.1 Supervisory reporting requirements are a reflection of the supervisor's needs and will thus vary according to overall market structure and conditions. Supervisory reporting requirements should apply to all insurers licensed in a jurisdiction, and form the general basis for off-site monitoring.

9.4.2 In setting supervisory reporting requirements, the supervisor may make a distinction for foreign insurers who are allowed to conduct insurance activities within the jurisdiction by way of a local branch or subsidiary or on a cross-border provision of services basis.

9.4.3 The supervisor should require insurers to report both quantitative and qualitative information, including at a minimum:

- financial reports, which include at least a balance sheet and income statement as well as a statement of comprehensive income if appropriate;
- an external audit opinion on annual financial statements;
- off-balance sheet exposures;
- material outsourced functions and activities;
- a description of the insurer's organisational structure, corporate governance framework and risk management and internal control systems; and
- information on complaints, claims, surrenders and lapses.

9.4.4 The supervisor should require insurers to utilise a consistent and clear set of instructions and definitions for any element in required reports that is not self-evident, in order to maximise comparability.

9.4.5 The supervisor may require that certain reports and information, such as solvency ratios or technical provisions, are subject to independent (internal or external) review, including audit and/or actuarial review.

9.4.6 In setting out the relevant accounting standards to be used, the supervisor could provide guidance and practices to be used for areas such as fair value estimations and technical provisions.

9.4.7 The external audit of the annual financial statements should be conducted in accordance with auditing standards that are generally accepted internationally.

9.4.8 External auditors should play a role in supporting the supervisor's review process. For example, supervisors may leverage the work of external auditors to identify: internal control weaknesses and possible audit material risks; issues resulting from regulatory and accounting changes; changes in insurance and financial risks; and issues encountered in applying the audit approach.

9.4.9 The supervisor should require the external auditor to report matters that are likely to be of material significance without delay. Such matters would include (suspicion of) material fraud and regulatory breaches or other significant findings identified in the course of the audit. Such information should be provided to the supervisor without the need for prior consent of the insurer and the external auditor should be duly protected from liability for any information disclosed to the supervisor in good faith.

9.4.10 Depending on the nature, scale and complexity of the insurer and its customer profile, more frequent reporting and/or additional information may be requested from specific insurers on a case-by-case basis.

9.4.11 The supervisor should require that information on changes that could materially impact the insurer's risk profile, financial position, organisational structure, governance or treatment of its customers is provided by the insurer in a timely manner.

9.4.12 The supervisor periodically reviews its reporting requirements to ascertain that they still serve their intended objectives and to identify any gaps which need to be filled. Assessing the results of off-site monitoring and on-site inspections may help inform such a review.

Group Perspectives

9.4.13 The supervisor should require an insurance legal entity which is part of an insurance group to describe its group reporting structure, and to provide timely notification of any material changes to that structure and significant changes or incidents that could affect the soundness of the insurance group. The description of the reporting structure should include information on the relationships between entities within the insurance group, and on the nature and volume of intra-group transactions. The supervisor may require information on the impact on the insurance legal entity of being part of an insurance group.

9.4.14 The supervisor may request and obtain relevant information from any entity within an insurance group, subject to applicable legal provisions and coordination with the supervisors of affected jurisdictions.

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

9.4.16 The information submitted to the group-wide supervisor should include information on the group structure, business operation and financial position of material entities within the insurance group and relationship among entities within the insurance group, including participation in other group entities and intra-group transactions.

CF9.4a	**The group-wide supervisor, in cooperation with other involved supervisors, establishes requirements for reporting the calculation of the ICS and the capital to meet the ICS.**

Off-site monitoring

9.5 The supervisor monitors insurers on an on-going basis, based on communication with the insurer and analysis of information obtained through supervisory reporting as well as market and other relevant information.

9.5.1 The supervisor should be proactive and forward-looking in conducting effective off-site monitoring, and not rely only on historical data. The supervisor should analyse information obtained in a timely manner.

9.5.2 The results of off-site monitoring should influence the supervisory plan and help determine the content, nature, timing and frequency of on-site inspections. Off-site monitoring may also enable the early detection of problems so that prompt and appropriate supervisory responses can be taken before such problems become more serious.

9.5.3 Analysis by the supervisor may provide a deeper understanding of developing trends affecting an insurer and its customers. Analysis by business lines, customer grouping and/or distribution channels may provide insights into the insurer's overall risk profile.

9.5.4 The supervisor should establish and follow documented procedures for the analysis and monitoring of the supervisory reporting that it receives. These may be conducted by individual supervisory staff using monitoring tools and/or specialised resources, as appropriate.

9.5.5 Examples of ways in which this Standard and its corresponding guidance can be pursued include the following: [see text in Annex]

On-site inspection

9.6 The supervisor sets the objective, scope and timing for on-site inspections of insurers, develops corresponding work programmes and conducts such inspections.

9.6.1 On-site inspections help the supervisor to identify strengths and weaknesses within an insurer, and to assess and analyse the risks to which an insurer and its customers are exposed.

9.6.2 On-site inspections may supplement the analysis from off-site monitoring and provide the supervisor with the opportunity to verify information it has received. On-site inspection may also help detect problems that may not be apparent through off-site monitoring.

9.6.3 The supervisor should develop a work programme that lays out the objectives, scope and timing of an on-site inspection of an insurer. On-site inspections should be tailored to the particular insurer and its risks. However, an on-site inspection work programme should remain flexible since new priorities might arise.

9.6.4 The on-site inspection work programme should take account of the insurer's distribution model, the nature, size and sophistication of its customer base and its relative importance in the market. On-site inspections should be more frequent and more in- depth for insurers which are in a difficult financial position or where there is concern that their business practices pose a high risk of negative customer outcomes.

9.6.5 The supervisor may use independent experts (see ICP 2 Supervisor) to conduct part of an on-site inspection, for instance when additional resources or specific expertise is needed.

9.6.6 The supervisor can conduct on-site inspections on either a broad or targeted basis. The purpose of a broad on-site inspection is to assess the overall condition, activities and risk-profile of the insurer. A targeted on-site inspection is focused on a specific area or areas of an insurer, such as a particular key activity or process. Targeted on-site inspections can also be carried out across a number of insurers based on a specific theme, activity or risk (sometimes called "thematic reviews"). Targeted on-site inspections can be very effective in focusing supervisory resources quickly on those areas requiring immediate attention. If a targeted on-site inspection leads to other areas of supervisory concern, the supervisor may determine that a broad on-site inspection is necessary.

9.6.7 Advance notice to the insurer should not be required before conducting an on-site inspection, although advance notice is normally given.

9.6.8 Examples of ways in which this Standard and its corresponding guidance can be pursued include the following [see text in Annex]:

CF9.6a The group-wide supervisor performs on-site inspections at the level of the Head of the IAIG.

CF9.6a.1 The group-wide supervisor's on-site inspections should consider group-wide activities and major risks that impact entities within the IAIG.

CF9.6a.2 During on-site inspections, the group-wide supervisor should have access to Key Persons in Control Functions and Senior Management responsible for the group-wide functions wherever these functions are performed.

CF9.6a.3 Other involved supervisors should inform the group-wide supervisor of significant planned on-site inspections and communicate the main findings to the supervisory college where they are material to the IAIG or to another insurance legal entity in the IAIG.

CF9.6b Where appropriate the group-wide supervisor, or other involved supervisors, join on-site inspections of an insurance legal entity in

	another jurisdiction with prior consent from the relevant involved supervisor and coordinated by that supervisor.
CF9.6b.1	Joint on-site inspections should be arranged whenever involved supervisors have a reasonable supervisory interest and whenever this avoids duplication of work.
CF9.6b.2	The main outcomes of joint on-site inspections that are material to the IAIG or to another insurance legal entity in the IAIG should be shared within the supervisory college.

Supervisory feedback and follow-up

9.7 The supervisor discusses with the insurer as soon as practical any relevant findings of the supervisory review and the need for any preventive or corrective measures.

9.7.1 The supervisor should provide appropriate feedback in a timely manner to the insurer during the ongoing supervisory review process. The supervisor should issue in writing the findings of the review and the actions required (see ICP 10 Preventive Measures, Corrective Measures and Sanctions).

9.7.2 Whether and how the insurer has subsequently addressed issues identified by the supervisor should be considered in the evaluation of the insurer and should be factored into the on-going supervisory plan.

CF9.7a	**The group-wide supervisor communicates the results of the group-wide supervisory review of the IAIG, including the group-wide risk assessment, to the supervisory college and, as appropriate, to the Head of the IAIG.**

Annex: Examples of ways in which Standards 9.5 and 9.6 and their corresponding guidance can be pursued include the following:

A. The evaluation of the effectiveness of the insurer's corporate governance framework, including its risk management and internal control systems, can be done through:

- reviewing and analysing the minutes of the Board and its committees;
- examining communications provided by the auditors to the Board and/or the Audit Committee, such as the auditors' reports;
- analysing information obtained from and/or received through direct engagement with the external auditor on substantial insights into the insurer's corporate governance framework, control environment, and financial reporting;
- evaluating the suitability of significant owners by analysing the ownership structure and sources of finance/funding;
- evaluating the independence of the Board Members, the suitability of the Board Members, Senior Management and Key Persons in Control Functions, their effectiveness, and their ability to acknowledge

improvement needs and correct mistakes (especially after such needs or mistakes have been identified by the insurer, its auditors, or the supervisor and after changes of management and in the Board);

- testing the insurer's internal policies, processes and controls in order to assess the adequacy of these in light of the insurer's risk profile;
- testing the accounting procedures in order to assess accuracy of the financial and statistical information periodically sent to the supervisor and its compliance with the regulations; and
- evaluating the organisational structure and the management of the insurer.

B. Analyses of the nature of the insurer’s activities can be done through:

- analysing business lines, the type of products offered, policyholders and location of business;
- analysing the distribution model(s) used;
- meeting with the management to get information and a deeper understanding about current and future business plans;
- analysing material contracts;
- analysing the sales and marketing policies of the insurer, in particular, policy conditions and remuneration paid to the intermediaries; and
- evaluating the reinsurance cover and its security. In particular, the reinsurance cover should be appropriate with regards to the financial means of the insurer and the risks it covers.

C. Analyses of the relationships with external entities can be done through:

- analysing organisational charts, the group structures and the intragroup links;
- analysing the relationships with major investors and among branches and subsidiaries;
- analysing intragroup transactions, fees and other arrangements, including identifying any instances of cross-subsidization of businesses within a group or non-arm's length fees and charges;
- analysing agreements with external service providers;
- identifying any financial problems originating from any entity in the group to which the insurer belongs; and
- identifying of any conflicts of interest arising from intra-group relationships or relationships with external entities.

D. Evaluation of the insurer's financial strength can be done through:

- analysing audited financial statements and off-balance sheet commitments;
- analysing the settlement of claims and the calculation of technical provisions according to current regulations;
- analysing the operations and financial results by line of business;

- analysing the investment policy (including derivatives policy) and the assets held to cover the technical provisions;
- valuation of the insurer's investments;
- assessing litigation in which the insurer is a party; and
- analysing the forecasted balance sheets and profit and loss accounts in relation to the most recent results and the management plans.

E. Assessment of the insurer's fair treatment of customers can be done through:

- assessing the culture of the insurer in relation to customer treatment, including the extent to which the insurer's leadership, governance, performance management and recruitment, complaints handling policies and remuneration practices demonstrate a culture of fair treatment to customers;
- assessing how conflicts of interests with customers are identified, managed and mitigated;
- reviewing how products are designed and distributed to ensure they fulfil the customers' demands and needs;
- checking the adequacy, appropriateness and timeliness of the information and advice given to customers;
- reviewing the handling and timing of claims and other payments;
- reviewing the handling, frequency and nature of customer complaints, disputes and litigation; and
- reviewing any customer experience reports used by the insurer or from other sources, such as an ombudsman.

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ICP 10 Preventive Measures, Corrective Measures and Sanctions

The supervisor:

- **requires and enforces preventive and corrective measures; and**
- **imposes sanctions**

which are timely, necessary to achieve the objectives of insurance supervision, and based on clear, objective, consistent, and publicly disclosed general criteria.

Introductory Guidance

10.0.1 The supervisor should initiate escalating measures to prevent a breach of regulatory requirements by an insurer, respond to a breach of regulatory requirements by an insurer, and enforce those measures to ensure that the insurer responds to the supervisor's concerns. Preventive measures should be used to prevent a breach of regulatory requirements and corrective measures should be used to respond to a breach of regulatory requirements. Functionally, supervisors may take similar or identical actions as preventive or corrective measures. In addition, where a regulatory requirement has been violated, supervisors may use sanctions.

10.0.2 Supervisors should promptly and effectively deal with insurer non-compliance with regulatory requirements or supervisory measures that could put policyholders at risk or that could impinge on any other supervisory objectives. The more significant the threat to policyholders' interests or to financial stability, then the quicker the supervisor will need to act and to require action from the insurer, and the more significant the measures that may be required. Circumstances may arise when preventive or corrective measures are insufficient to prevent an insurer from being no longer viable, or likely to become no longer viable, and therefore need to exit the market or be resolved (see ICP12 Exit from the market and Resolution).

10.0.3 As part of the supervisory framework (see ICP9 Supervisory Review and Reporting), supervisors should consider in advance how to use preventive and corrective measures, enforcement of those measures, and the imposition of sanctions. A supervisor's framework should be documented to assist in the delivery of consistent supervision over time. It is crucial that the framework leaves room for the exercise of supervisory judgement and discretion, so flexibility should be allowed in the use of preventive measures, corrective measures and sanctions. In addition to general criteria, other parts of the framework on preventive measures, corrective measures and sanctions can also be released publicly, particularly where the supervisor feels that this additional transparency will lead to the market functioning more effectively.

The decision-making processes that underpin the supervisory framework should function in a way that allows the supervisor to take immediate action when necessary.

10.0.4 In some instances, the supervisor will need to work with other authorities or bodies in order to take or enforce supervisory measures or sanctions against an insurer. For example, some measures or sanctions will require the approval of a judicial body.

10.0.5 There are different methods by which supervisory outcomes can be achieved. The method chosen may vary depending on the jurisdiction's legal framework. In some jurisdictions, one method is to accept an enforceable written agreement to do, or not to do, some thing or things from the insurer in question. The potential advantages of achieving an outcome by this route are that it can be quicker and less costly. This option can be used to achieve outcomes related to preventive or corrective measures or to sanctions.

Group perspectives

10.0.6 Measures or sanctions targeted at non-insurance legal entities within an insurance group may require the supervisor to work with other regulatory authorities.

10.0.7 The supervisor for an insurance legal entity within an insurance group should inform other involved supervisors when taking supervisory measures against or imposing sanctions on that insurance legal entity, where those sanctions are material or otherwise relevant to those supervisors.

CF10.0a The group-wide supervisor applies supervisory measures directly to the Head of the IAIG within the group-wide supervisor's jurisdiction.

CF10.0a.1 The group-wide supervisor should have flexibility in the application of supervisory measures depending on the jurisdiction and the IAIG's situation.

CF10.0a.2 If the Head of the IAIG is not located in the jurisdiction of the group-wide supervisor, the group-wide supervisor should use indirect powers to apply supervisory measures.

CF10.0b An involved supervisor coordinates with other involved supervisors before requiring a specific preventive or corrective measure if that measure will have a material effect at the group level or on an insurance legal entity within the IAIG, unless exceptional circumstances preclude this.

CF10.0b.1 The supervisory college provides a forum for the group-wide supervisor and the other involved supervisors to coordinate preventive and corrective measures.

CF10.0b.2 Supervisory measures that should be preceded by coordination between involved supervisors include: restricting the transfer of

	assets between entities within the IAIG; requiring an increase in capital; and suspending or revoking the licence of an insurer.
CF10.0b.3	There may be exceptional circumstances where the supervisor who wishes to act cannot involve in advance the other involved supervisors. In such circumstances, the supervisor should inform other involved supervisors of the decision made, or action taken, and the supporting rationale as soon as possible.
CF10.0b.4	The supervisor of one of the IAIG's insurance legal entities does not need to coordinate with other involved supervisors if the preventive or corrective measure will not materially affect the IAIG as a whole or another insurance legal entity. For example, a supervisor may not need to coordinate with the other involved supervisors before requiring the insurance legal entity to alter its sales practices.
CF10.0b.5	If a supervisor requires an insurance legal entity in an IAIG to take preventive or corrective measures that are long-term and material in nature, the supervisor should provide periodic updates to the supervisory college.
CF10.0b.6	The requirement to coordinate action (other than in exceptional circumstances) does not imply that the supervisor taking action needs the consent of other involved supervisors to take action which is necessary to discharge its duties under the law in its jurisdiction.

10.1 The supervisor acts against individuals or entities that conduct insurance activities without the necessary licence.

10.1.1 The supervisor should have in place mechanisms to identify when unlicensed insurance activity is being carried out. Examples of such mechanisms include monitoring of media and advertising, review of consumer complaints or encouraging industry and other stakeholders to notify the supervisor of suspicious activity.

10.1.2 Where unlicensed activity is identified, the supervisor should act to address the issue. Examples include requiring the unlicensed entity to apply for a licence, seeking court orders to require the unlicensed entity to stop the activity, informing law enforcement authorities of criminal and/or civil concerns, imposing sanctions on the individual/entity or publicising the fact that the individual and/or entity is/are not licensed to conduct insurance activities.

10.2 The supervisor requires preventive measures if the insurer seems likely to operate in a manner that is inconsistent with regulatory requirements.

10.2.1 Where the supervisor assesses that an insurer seems likely to fail to meet regulatory requirements the supervisor should intervene. Vulnerability in the insurer's ability to protect policyholders' interests or financial stability concerns should lead to more urgent intervention by the supervisor.

10.2.2 The supervisor should communicate concerns to the insurer with a promptness that reflects the significance of the concern. Some concerns, such as relating to insurer solvency, policyholder protection, or financial stability, will be sufficiently significant to require immediate communication to the insurer. Other concerns, although significant, may not require such rapid communication, but should still be communicated appropriately. For example, it is unlikely to be appropriate for a supervisor to wait for the next on-site visit to an insurer before communicating a significant concern.

10.2.3 The supervisor should promptly bring significant concerns to the attention of the Board because it has ultimate responsibility for the insurer and that such concerns are resolved. In addition, the supervisor should also communicate with Senior Management and with Key Persons in Control Functions to bring significant concerns to their attention.

10.2.4 The supervisor should have available a range of preventive measures broad enough to address insurers of all sizes and complexities. Preventive measures should be chosen to address the severity of the insurer's problems.

10.2.5 The supervisor should have the power to issue, and enforce:

- restrictions on business activities, such as:
    - prohibiting the insurer from issuing new policies or new types of product;
    - requiring the insurer to alter its sales practices or other business practices;
    - withholding approval for new business activities or acquisitions;
    - restricting the transfer of assets;
    - prohibiting the insurer from continuing a business relationship with an intermediary or other outsourced provider, or requiring the terms of such a relationship to be varied;
    - restricting the ownership of subsidiaries; and
    - restricting activities of a subsidiary where, in its opinion, such activities jeopardise the financial situation of the insurer;
- directions to reinforce financial position, such as:
    - requiring measures that reduce or mitigate risks;
    - requiring an increase in capital;
    - restricting or suspending dividend or other payments to shareholders; and
    - restricting purchase of the insurer's own shares; and

- other directions, including:
  - requiring the reinforcement of governance arrangements, internal controls or the risk management system;
  - facilitating the transfer of obligations under the policies from a failing insurer to another insurer that accepts this transfer;
  - suspending the licence of an insurer; and
  - barring individuals acting in key roles from such roles in future.

10.2.6 The supervisor should take steps to address problems arising from Board Members, Senior Management, Key Persons in Control Functions, significant owners, external auditors and any other person who plays a significant role within the insurer. For example, the supervisor should require the insurer to replace or restrict the power and role of key actors in the governance processes if the supervisor has material concerns with management or governance.

10.2.7 The supervisor should reject, rescind and/or request a court to revoke the appointment of an external auditor who is deemed to have inadequate expertise or independence, or is not subject to, or does not adhere to, established professional standards.

10.2.8 Supervisors should take action to address insurer audit quality concerns, including, where possible, requiring replacement or appointment of a supplementary auditor and the sanctioning of an external auditor if necessary. Supervisors should watch for indicators of potential major audit quality concerns, such as when:

- the auditor does not have adequate insurance industry knowledge and competence;
- there is an identified issue with auditor objectivity and independence;
- the auditor does not disclose to the supervisor matters that it is required to disclose;
- clear audit quality concerns are identified, such as if the auditor fails to test internal control systems sufficiently, the auditor is not appropriately sceptical, or does not appropriately challenge the insurer's management regarding the major accounting figures; or
- the auditor's system of internal quality control appears ineffective.

CF10.2a The group-wide supervisor requires the Head of the IAIG to take preventive measures if:

- **an entity within the IAIG seems likely to operate in a manner that**
  - **is inconsistent with any relevant regulatory requirements, or**
  - **would have a material adverse effect on the IAIG as a whole; or**
- **the IAIG as a whole seems likely to operate in a manner that is inconsistent with regulatory requirements.**

CF10.2a.1 The situation described in the first part of the Standard could arise, for example, where one regulated entity in the group seems likely to fail to meet its capital requirement, causing the IAIG as a whole to be likely to fail to meet a group capital requirement to which it is subject.

CF10.2a.2 The group-wide supervisor should not require the Head of the IAIG to take additional preventive measures if the supervisor of an insurance legal entity within the IAIG has already required that entity to take preventive measures and the group-wide supervisor has assessed that the preventive measures adequately mitigate the risk to the IAIG as a whole.

CF10.2a.3 The situation described in the second part of the standard could arise, for example, where every regulated entity in the IAIG meets its capital requirement, but the group as a whole seems likely to not meet a group capital requirement to which it is subject.

10.3 The supervisor requires corrective measures if the insurer fails to operate in a manner that is consistent with regulatory requirements.

10.3.1 The Guidance under Standard 10.2 is equally applicable when considering corrective measures.

10.3.2 In addition to the supervisory tools set out in 10.2.5, when considering corrective measures the supervisor may find it necessary, in cases of serious breach of regulatory requirements, to revoke the licence of an insurer. The supervisor should be able to enforce this decision.

Recovery Plans

10.3.3 The supervisor may require an insurer to produce a recovery plan that identifies in advance options to restore financial strength and viability, and apply the recovery plan as a corrective measure if the insurer comes under severe stress. It may be appropriate for the supervisor to require a recovery plan of an insurer that is, for example, complex, systemically important and/or has a different risk profile or business model compared to other insurers.

10.3.4 The insurer's Senior Management should provide to the supervisor the necessary input to enable it to assess the robustness and credibility of the recovery plan.

10.3.5 Recovery plans should be reviewed at least annually, or more frequently if there are material changes to the insurer's business or structure, and updated where necessary.

CF10.3a The group-wide supervisor requires the IAIG to:

- **develop a recovery plan; and**
- **take actions for recovery.**

CF10.3a.1 The supervisor should consider the IAIG's nature, scale, and complexity when setting recovery plan requirements, including the form, content and detail of the recovery plan and the frequency for updating the plan.

CF10.3a.2 Recovery is the responsibility of the IAIG. The IAIG needs to be able to take actions for recovery, in particular when any pre-defined criteria that trigger recovery actions are met. The group-wide supervisor requires an IAIG to take further actions where actions for recovery already taken by the IAIG are ineffective or insufficient.

CF10.3a.3 Pre-defined criteria that trigger recovery actions may be qualitative or quantitative. The criteria may include a strong likelihood that the insurer's solvency position will be below the PCR level.

CF10.3a.4 The recovery plans developed by the IAIG should cover all material entities within the group, including holding companies and non-regulated companies.

CF10.3a.5 The recovery plan should serve as a guide for the IAIG and the group-wide supervisor for crisis preparedness and crisis management.

CF10.3a.6 The IAIG should ensure that:

- it has a robust governance structure and sufficient resources to support the recovery planning process, which includes clear allocation of responsibilities; and
- recovery planning is integrated into the IAIG's overall governance processes;
- it has in place systems to generate on a timely basis the information required to support the recovery planning process; and
- it takes into account the impact of stress situations on intra-group transactions and associated cash flows and their availability when drawing up its recovery plans.

CF10.3a.7 Recovery plans are an integral part of the risk management process of an IAIG, to identify actions to be taken in stress conditions that pose a serious risk to the viability of the IAIG, or any part of its insurance business. Recovery plans generally describe how the IAIG would:

- continue operating its business, including through a modified legal structure (e.g., consider operations that could be discontinued or divested); or
- continue operating certain lines of insurance business while restructuring or running off its discontinued business lines in an orderly fashion.

CF10.3a.8 Recovery plans should include:

- concrete, credible options to respond to a range of significant stress scenarios, including both idiosyncratic and market wide stress;
- measures to address capital shortfalls and liquidity pressures and to restore the financial health of the IAIG, including the management actions it would take to manage the potential cash flow implications of a stress scenario;
- description of functions and/or services that are critical for the group;
- processes to ensure timely implementation of recovery actions;
- quantitative or qualitative trigger points, and governance and escalation mechanisms, to ensure that the plan or individual measures are initiated in a timely way; and
- strategies for communication with key external stakeholders.

CF10.3a.9 Possible measures for recovery include:

- actions to strengthen the capital position, such as recapitalisations;
- capital conservation measures, such as suspension of dividends and of payments of variable remuneration;
- reorganisation of corporate structure, including sales of subsidiaries;
- voluntary restructuring of liabilities, e.g. debt-to-equity conversion; and
- measures to secure sufficient diversified funding and adequate availability of collateral in terms of volume, location and quality.

CF10.3a.10 The group-wide supervisor should regularly review the recovery plan, including the assumptions and stress scenarios underlying the plan, to assess its credibility and likely effectiveness. Where necessary, the group-wide supervisor should require the IAIG to revise these assumptions and scenarios.

CF10.3b	**The supervisor requires the IAIG to develop and maintain management information systems (MIS) that are able to produce information on a timely basis in normal times for recovery.**
CF10.3b.1	It is important that the IAIG have the information necessary for executing recovery actions available when needed. Some of this information may be similar to the information needed for resolution, while recovery may require other information that may be different (see ComFrame material under ICP 12 Exit from the Market and Resolution).

10.4 The supervisor:

- **requires the insurer to take actions that address the supervisor's identified concerns;**
- **periodically checks that the insurer is taking action; and**
- **assesses the effectiveness of the insurer's actions.**

10.4.1 The supervisor should require the insurer to prepare a plan to resolve the concerns within an acceptable timeframe. The plan should include actions proposed by the insurer or preventive or corrective measures required by the supervisor. What is acceptable as a timeframe will depend on the circumstances of the concerns raised.

10.4.2 If the insurer does not prepare an acceptable plan in a specified timeframe to respond to the supervisor's concerns, the supervisor should impose such a plan on the insurer.

10.4.3 The supervisor should review the results of the actions that the insurer has taken. The supervisor should review both whether the actions have been taken and, if so, the effectiveness of the actions.

10.4.4 The supervisor may require assurance from an independent reviewer regarding adequate resolution of significant concerns. In such cases the supervisor may also require that such an independent reviewer be appointed at the expense of the insurer.

10.4.5 If the insurer's actions have not adequately addressed the concern, then the supervisor should require further measures to be taken by the insurer.

10.5 The supervisor escalates, including enforcing, preventive or corrective measures if its concerns are not addressed by the insurer's actions.

10.5.1 The supervisor should require further measures if its concerns with the insurer become worse, including if the insurer fails to take the actions in a plan.

10.5.2 Supervisory measures should escalate in line with the supervisor's concerns about the insurer. If the insurer's inaction leads to an increased risk to policyholders, then the supervisor should respond by requiring stronger measures to mitigate this risk.

10.5.3 Enforcement of preventive or corrective measures could involve the supervisor issuing a formal direction to an insurer to take particular actions or to cease conducting particular activities. It could also involve the supervisor seeking the assistance of other authorities, or the courts, to enforce a measure.

CF10.5a The IAIG's group-wide supervisor coordinates with other involved supervisors if the Head of the IAIG, or an insurance legal entity within the IAIG, fails to take action to address the group-wide supervisor's, or other involved supervisor's, identified concerns.

CF10.5b Where an entity within the IAIG fails to take preventive or corrective measures, as required by the involved supervisor, the group-wide supervisor informs the Head of the IAIG of that lack of compliance and requires the Head of the IAIG to take action to ensure compliance.

10.6 Where appropriate, the supervisor imposes sanctions on insurers and individuals proportionate to the breach of regulatory requirements or other misconduct.

10.6.1 The supervisor should be able to impose a range of sanctions, which could be administrative, civil or criminal in nature. These can include the ability to impose fines, the ability to bar individuals acting in key roles from holding similar roles in future, and the ability to require remediation (such as requiring compensation of policyholders in cases of mis-selling). It is recognised that supervisors will not always be able to take a full range of legally binding actions themselves and may need to act in conjunction with other authorities, in particular, in the case of criminal penalties.

10.6.2 In some cases it may be appropriate to apply punitive sanctions against insurers or individuals when justified by their actions, or inactions.

10.6.3 The supervisor should, in particular, be able to impose sanctions against insurers and individuals who fail to provide information to the supervisor in a timely fashion, withhold information from the supervisor, provide information that is intended to mislead the supervisor, deliberately misreport to the supervisor, or do not act in accordance with orders or directions imposed on the insurer.

10.6.4 The sanctions imposed by the supervisor should be commensurate with the nature and severity of the insurer's non-compliance with regulatory requirements. Administrative or procedural breaches will generally attract less severe sanctions than breaches arising from an insurer's intentional disregard of regulatory requirements. The sanction imposed should be sufficiently punitive to dissuade the insurer, or other insurers, from committing a similar breach in the future.

10.6.5 The supervisor should impose more severe sanctions relative to the gravity of the breach where an insurer's history demonstrates a pattern of non-compliance with regulatory requirements.

10.6.6 The supervisor may impose sanctions on insurers or individuals in addition to supervisory measures or in the absence of supervisory measures.

10.6.7 The imposition of sanctions against an insurer or an individual typically should not delay either supervisory measures or insurer action taken in response to supervisory measures. However, in some instances, the nature of the sanctions may delay supervisory measures. For example, where a supervisor sanctions an insurer by requiring a number of Senior Managers to be replaced with new individuals, supervisory measures intended to improve the governance of the insurer may not be practical until after the new individuals are appointed.

10.6.8 The supervisor, or another responsible authority in the jurisdiction, should take action to enforce sanctions that have been imposed.

10.6.9 The supervisor should sanction insurers and individuals within a consistent framework, so that similar violations and weaknesses attract similar sanctions. Supervisors should consider how proposed sanctions relate to previous cases. The supervisor should identify precedents where the supervisor has sanctioned an insurer or individual for similar actions/inactions. Where the supervisor has sanctioned an insurer or individual for similar actions/inactions, then the supervisor should consider carefully whether a comparable sanction is appropriate. If the supervisor concludes that a very different sanction is appropriate, the supervisor should be prepared to explain why it reached this conclusion.

10.6.10 In order for sanctions to have a deterrent effect on other insurers, the fact of the sanction, and sufficient details of the breach, should in general be published. However, the supervisor should retain the discretion to take a different course of action (for example, not to publish, or to delay publication) where this would further the achievement of supervisory objectives or it is otherwise in the public interest to do so.

CF10.6a Where appropriate, the group-wide supervisor applies sanctions directly to the Head of the IAIG within the group-wide supervisor's jurisdiction.

CF10.6a.1	Sanctions should include, but are not limited to, the imposition of fines and penalties (even if non-compliance is due to the actions of a subsidiary in the group)
CF10.6a.2	The group-wide supervisor should have flexibility in the application of sanctions depending on the jurisdiction and the IAIG's situation.
CF10.6a.3	If the head of the IAIG is not located in the jurisdiction of the group-wide supervisor, the group-wide supervisor should and use indirect powers to apply sanctions.
CF10.6b	**An involved supervisor coordinates with other involved supervisors before sanctioning:** • **an insurance legal entity;** • **the Head of the IAIG; or** • **an individual involved with the relevant insurance legal entity or Head of the IAIG** **if the sanction has a material effect on the supervision of the IAIG as a whole or a material effect on another insurance legal entity. This coordination takes place unless exceptional circumstances preclude it.**
CF10.6b.1	The supervisor should discuss the need for sanctions with other involved supervisors at the earliest opportunity. Where a supervisor must act before discussing the need for sanctions, the supervisor should inform the group-wide supervisor and other involved supervisors of the sanction and the supporting rationale as soon as possible.