



FINANCIAL STABILITY INSTITUTE

BANK FOR INTERNATIONAL SETTLEMENTS

# Licensing

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## ICP 6: Licensing

- An insurer must be licensed before it can operate within a jurisdiction. The requirements for licensing are clear, objective and public



## Other relevant ICPs

- ICP 7 Suitability of persons
- ICP 9 Corporate Governance
- ICP 10 Internal Control
- ICP 17 Group-wide supervision
- ICP 23 Capital adequacy and solvency



## Definition and Rationale

- The formal authority given to an insurer to carry on insurance business under the domestic insurance legislation
- Determine which insurers are allowed to carry out insurance activities
- Identify and prevent possible problems, thereby facilitating on-going supervision
- Licensing is a first important step in supervision



## Purpose and objectives

- Protect the interests of the policyholders
- Maintain safe, stable and efficient insurance markets
- Maintain the confidence in the insurance market and the supervisory system
- Licensing procedures should be in place for supervisory purposes and should not act as a barrier to market access



## Legal framework

- Include a definition of insurers
- Require licensing (and supervision) of insurers (domestic and foreign)
- Prohibit unauthorised insurance activities
- Define the licensing criteria, which should be clear, objective and public
- Define permissible legal forms for insurers
- Allocate the responsibility for issuing licences
- Provide means for appeal



## Licensing criteria

- Board members, senior management, auditor and actuary of the applicant should be suitable, individually and collectively
- *Significant* owners of the applicant should be suitable



## Fit and proper

- Integrity
- Competency
- Experience
- Qualifications

The main responsibility for assessment of the fitness and propriety of key persons lies with the insurers themselves





## Licensing criteria (continued)

- The applicant should hold the required capital
- The applicants risk management systems, including reinsurance arrangements, internal control systems, information technology systems, policies and procedures should be adequate for the *nature* and *scale* of the business



## Business plan

- Organisational and administrative structure
  - Contracts with affiliates and outsourcing arrangements
  - Reporting arrangements internally and externally
- Nature and scale of the business
  - Business lines and risk profile
  - Products to be offered and how



## Principle of specialisation

- The object of business should be limited to that of insurance and operations that are directly arising from that business, to the exclusion of all other commercial business



## Principle of separation

- An insurer licensed to underwrite life insurance business must not be licensed to underwrite non-life insurance business, and vice versa, unless the supervisory authority is satisfied that the insurer has satisfactory processes requiring that risks be handled separately, on both a going-concern and a winding-up basis



## Business plan (continued)

- Projections (min 3 years)
  - Setting-up costs
  - Projected development of business
  - Reinsurance arrangements
  - Capital requirements and solvency margin
- Information showing whether the applicant has the required capital and the adequate risk management systems, internal control, etc



## Information sources

- Founders or advisors to founders
- Other supervisors, where relevant
- Criminal register
- Tax authority



## Supervisory assessment and decision

- Should be made on the basis of the information and documentation received
- Decision should be taken within a reasonable time
- No license should be issued without the approval of the supervisory authority
- The applicant should be informed without delay and in case of a refusal, should be provided with the explanation



## Granting of licence

- Should be granted in respect of specific business lines
- Additional requirements, conditions or restrictions may be imposed where considered appropriate





## Follow-up of licensing

- Evaluate and monitor the degree to which the insurer satisfies
  - Relevant licensing principles
  - Other requirements of the jurisdiction



## Refusal of licence

- Non-compliance with the licensing criteria
- Insufficient resources to maintain the insurer's solvency on an on-going basis
- Organisational or group structure that hinders effective supervision