

On-site Inspection as Part of a Risk-based Approach



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2nd International Insurance Supervision Seminar on
Core Supervisory Issues

8 August 2006



Agenda

- 1. Introduction**
2. The Insurance core principles
3. Assessing capital adequacy and regulatory compliance
4. Selection of insurers to be inspected
5. Preparation and carrying-out the inspection
6. Follow-up



1. Introduction

- Risk based supervision
 - Planning and execution of supervisory activities are influenced by an evaluation of the probabilities and/or impact of non-compliance with legislation
 - Depend on the systemic importance, nature, scale and complexity of the business (proportionality)
 - Allows for prioritisation of supervisory activities



1. Introduction

- Supervisory methods
 - Off-site supervision
 - On-site inspections



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2. The Insurance core principles

| Contents | ICPs |
|------------------------|--|
| 5. Ongoing supervision | ICP 11: Market analysis |
| | ICP 12: Reporting to supervisors and off-site monitoring |
| | ICP 13: On-site inspection |
| | ICP 14: Preventive and corrective measures |
| | ICP 15: Enforcement or sanctions |
| | ICP 16: Winding-up or exit from the market |
| | ICP 17: Group-wide supervision |



2. The Insurance core principles

Insurance core principle 13

- The supervisory authority carries out on-site inspections to examine:
 - The business of an insurer
 - Its compliance with legislation and supervisory requirements





2. The Insurance core principles

ICP 13, Essential criteria

- Legal powers to conduct on-site inspections
- Verification of supervisory returns
- Full scale or focused
- Discussion of findings and need for corrective action and collection of feedback
- Follow up
- Extension to intermediaries and service providers possible



2. The Insurance core principles

Supervisory Standard on On-site Inspections (1998)

- Supplements off-site supervision
- Verification of data and information
- Assess current and prospective solvency
- Detect any problems, analyse their causes and identify solutions
- Assess fitness and propriety
- Monitor decision making processes and controls



2. The Insurance core principles

Supervisory Standard on On-site Inspections (1998)

- The management and the internal control system
- The activity
- The technical conduct
- External entities
- Financial strength



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3. Assessing capital adequacy and regulatory compliance

Purpose of on-site (and off-site) inspections

- Protecting policyholders and beneficiaries
- Monitoring that conditions for the license are met
- Evaluating the risk profile and the capital strength of insurers
- Evaluating insurers' compliance with legislation and taking remedial action



3. Assessing capital adequacy and regulatory compliance

- On-site inspections to be done on a regular basis
- Resource intensive
- Requires qualified staff
 - Often qualifications acquired through “learning by doing”
- May be performed by the line officer or staff directly assigned to on-site supervision
- Inspections should focus specifically - but not solely - on areas that are difficult to evaluate based on off-site supervision



3. Assessing capital adequacy and regulatory compliance

- On-site inspections supplement off-site supervision in forming a comprehensive view of:
 - Group structure and the insurer's organisation
 - Company strategies
 - The quality of management
 - The risk profile and capital strength
 - The profitability



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4. Selection of insurers to be inspected

Selection of insurers based on a long term plan – to be re-evaluated regularly

- Risk based / all insurers should be inspected regularly
- Criteria
 - Size and systemic importance
 - Risk profile and capital strength (information based on output from off-site supervision)





4. Selection of insurers to be inspected

- Set procedure for planning of on-site inspections
- Recently licensed insurers should be subject to an inspection
- The planning may have to be coordinated with other supervisors



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5. Preparation and carrying-out the inspection

Stages of an on-site inspection:

- Announcing the inspection and requesting the insurer to provide ad hoc information (letter to Board of directors, c.c. senior management and auditors)
- Home work (based on off-site information and called in documents)
- Draft agenda
- Introductory meeting with management
- Reading the minutes of the meetings of the Board and any Board Committees



5. Preparation and carrying-out the inspection

Stages of an on-site inspection (cont.)

- The insurance business
- Intra-group transactions
- Asset management and liquidity
- Finance and accounting
- Service providers and/or intermediaries
- Meeting with auditors
- Reporting to Board, management and auditors (meeting)
- Written report (right of appeal)
- Follow up



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6. Follow-up

Possible reactions:

- Risk information
- Orders (directions)
 - Compliance with orders to be followed up by the insurer, including a deadline (or requiring an action plan)
 - Compliance with orders to be followed up by the auditor
 - Other orders – compliance expected
- Reprimand (infringement of legislation)
- Report to the police (where relevant)
- Restrictions, suspension or withdrawal of license



6. Follow-up

- Follow up on compliance with reactions
- Feed back to the off-site supervisory process



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- Any questions?

