

1st Saudi Insurance Forum

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Principles of Supervision

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International Association of Insurance Supervisors

The IAIS is committed to developing standards that can be used by insurance supervision throughout the world. IAIS papers represent best practices, or targets, for supervisors to work towards; they can be implemented in a flexible manner depending on the circumstances within each jurisdiction.



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IAIS - Principles

The IAIS sets out principles that are fundamental to effective insurance supervision. The principles identify areas in which the insurance supervisor should have authority or control. These form the basis from which standards are developed.



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IAIS - Principles

1. Insurance core principles & methodology
2. Principles applicable to the supervision of international insurers and insurance groups and their cross-border business operations
3. Principles for the conduct of insurance business
4. Principles on the supervision of insurance activities on the Internet
5. Principles on capital adequacy and solvency
6. Principles on minimum requirements for supervision of reinsurers



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IAIS - Insurance Core Principles on Corporate Governance

1. Insurance core principles & methodology
2. Principles applicable to the supervision of international insurers and insurance groups and their cross-border business operations
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5. Principles on capital adequacy and solvency
6. Principles on minimum requirements for supervision of reinsurers



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IAIS - Standards

Standards focus on particular issues and describe best or most prudent practices. In some cases, standards will set out best practices for a supervisory authority; in others, the papers describe the practices a well managed insurance company would be expected to follow and, thereby, assist supervisors in assessing the practices that companies in their jurisdictions have in place.



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IAIS - Supervisory Standards

1. On licensing
2. On on-site inspections
3. On derivatives
4. On asset management by insurance companies
5. On group coordination
6. On the exchange of information
7. On the evaluation of the reinsurance cover
8. On supervision of reinsurers



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IAIS - Guidance papers

Guidance papers are an adjunct to principles and standards. They are designed to assist supervisors, although sometimes they are addressed at insurance companies.



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IAIS - Guidance papers

1. Guidance on insurance regulation and supervision for emerging market economies
2. A Model memorandum of understanding (to facilitate the exchange of information between financial supervisors)
3. Guidance paper for fit and proper principles and their application
4. Guidance paper on public disclosure by insurers
5. Anti-money laundering guidance notes for insurance supervisors and insurance entities
6. Solvency control levels
7. The Use of actuaries as part of a supervisory model
8. Stress testing by insurers



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Principles of Supervision 1/4

Causes and Danger signs of General Insurance Insolvencies

- Fraud
- Growth
- Losses - unprofitable new business
 - inadequate reserves
- Poor assets - investments
 - reinsurance
 - broker balances



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Principles of Supervision 2/4

What powers should the supervisor have:

- Power to stop companies writing new business.
- Power to stop / limit dividend payments
(Powers to approve terms of intra-group service contracts / loans)
- Power to curb what kind of business is being written.



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Principles of Supervision 3/4

- Power to constrain kinds of investments held.
- Powers to have assets held by trustee or Third Parties
- Powers to approve people appointed to management.
- Powers to approve reinsurance contracts.



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Principles of Supervision 4/4

- Power to ask company for an actuary's report on reserves.
- Powers to demand information / documents.
- Powers to approve any portfolio acquisition or transfer
- Power to do anything else he needs to do to protect policyholders.



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DISGUIISING A WEAK BALANCE SHEET 1/3

- non - existent assets
- illiquid assets
- unreal asset values
- admissibility, valuation, audit



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DISGUIISING A WEAK BALANCE SHEET 2/3

- under reserving for outstanding claims
- inflation
- adverse development
- latent claims
- IBNR



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DISGUIISING A WEAK BALANCE SHEET 3/3

- unrecognized Non materialized Risk
- inadequate expense provision
- optimistic reinsurance recoveries
- mismatching



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DATA WEAKNESSES

- inadequate data systems
- uncoordinated data
- errors and omissions
- poor reporting mechanisms



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COMPANY IN DECLINE

- excessive overheads
- unprofitable premiums
- cheap reinsurance cover
- risky assets



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EXCESSIVE EXPOSURE

- high potential losses
- aggregation of risk
- catastrophic claim frequency
- long - tailed development



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REINSURANCE RISK

- inadequate cover
- wrong type of cover
- poor security



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ASSET RISK

- risk return trade - off
- speculative ventures
- poor recovery of debts
- currency mismatch
- duration mismatch



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MALFEASANCE

- deliberate fraud
- concealment
- economy with the truth
- fit and proper



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RELEVANT SITES

- International Association of Insurance Supervisors
 - www.iaisweb.org
- The Muhanna Foundation
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Overview of The Muhanna Group

- **Actuarial consultancy** - established in 1986
 - Life, P&C & Health Insurance
 - Pensions & Social Insurance
 - Insurance supervision
 - Management Consulting (Risk Management - Mergers & Acquisitions)
- Software solutions - established in 1990
- **Actuarial Education** - established in 1994
- **Rating services** - established in 2000

As of end 2003 Services were rendered in 32 countries

- Provided services to 41 government & semi-government organizations
- Advised 52 life & general Insurance companies
- Provide services to 94 other private institutions
- Financed & sponsored 23 actuarial students
- Delivered & published 67 actuarial and insurance papers & studies



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