



The Core Curriculum for Insurance Supervisors

ICP 6: Licensing

Wonderland Case Study

Prepared by Craig Thorburn

Background

The material presented here has been developed for use with the International Association of Insurance Supervisors (IAIS) Core Curriculum modules on licensing (ICP 6) and Wind-up and exit from the market (ICP 16).

The material includes:

BACKGROUND	2
THE SETTING	3
<i>The country</i>	3
<i>The economy</i>	4
<i>International Links</i>	5
<i>Finance Sector</i>	5
FROM THE INSURANCE LAW AND SUPERVISORY CIRCULARS	6
CASE STUDY: LICENSING	7
BACKGROUND	7
THE APPLICATION.....	8
BACKGROUND DOCUMENTS	14
THE INSURANCE LAW OF WONDERLAND	14
COMMISSIONER’S CIRCULARS	20
GUIDE TO WHO IS WHO, WHAT IS WHAT, AND WHERE IT IS	26

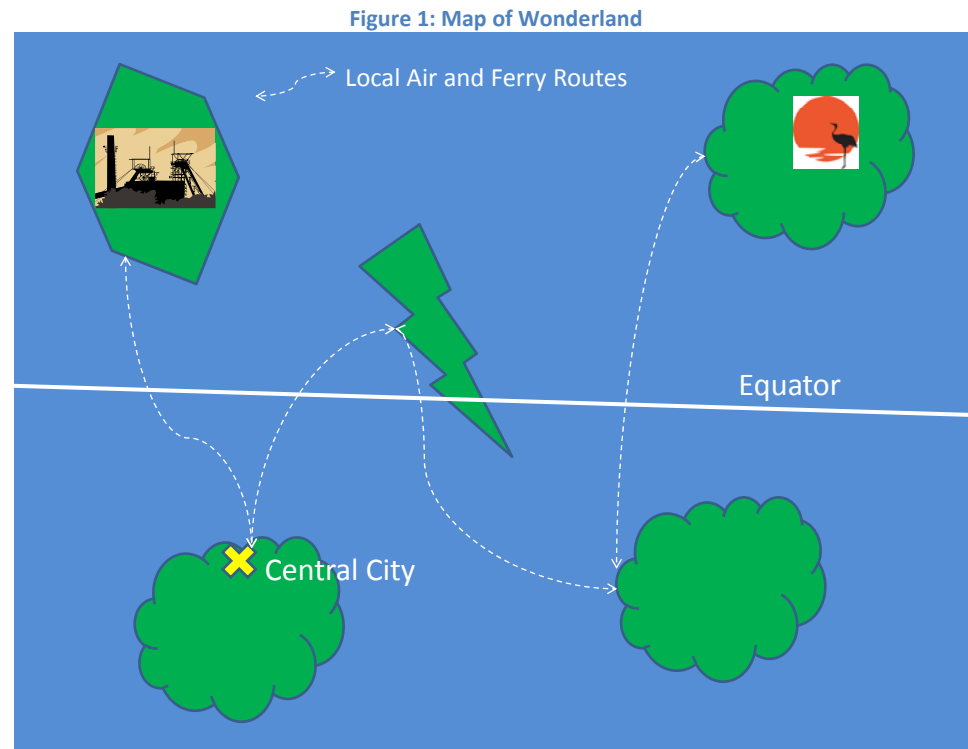
The setting

The country

This case study takes place in the country of Wonderland, a group of five tropical islands that form a letter “W” when viewed from outer space. The capital city, Central City, is located on the south western island. The population stands at 385,000 at the last census.

The national symbol is the wonderbird. It appears on the national flag, government publications, and the national state owned airline “Wonderbird Air Services”. Wonderbird Air Services provides links with major tourism and trading partners as well as links between the islands. The wonderbird is a protected species. Wonderland is a two party democracy. At the last election a change of government brought the Democrat Party to power after a long period in opposition.

The new minister of finance is Don Juan Tanoo.



The economy

The country is developing economically through tourism on coastal resorts on the eastern islands attracting international film stars, business tycoons, royalty, and other high net worth individuals.

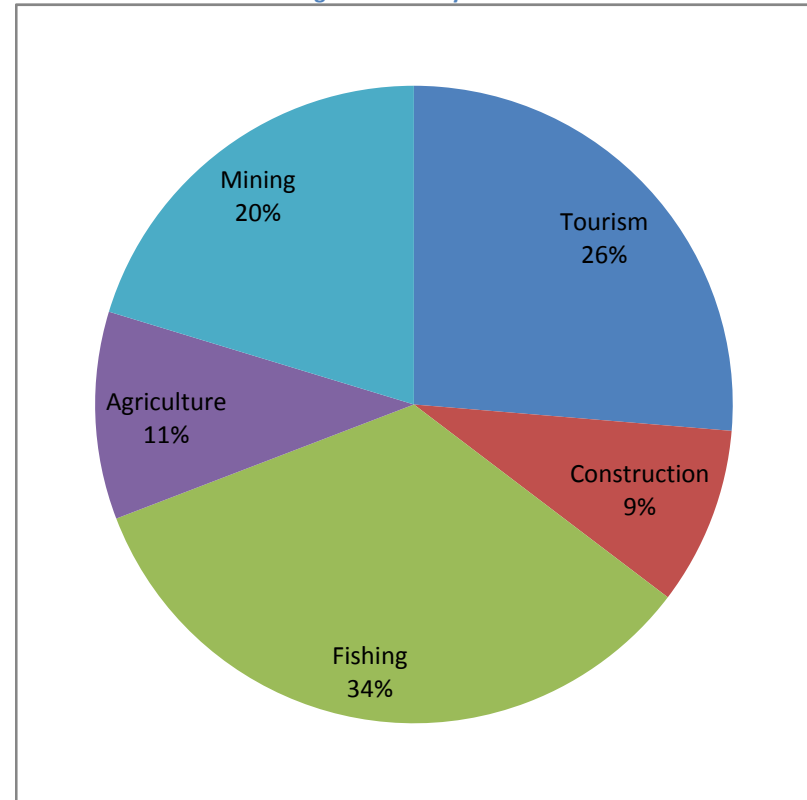
Mining diamonds on the north western island had supported incomes but is a fast depleting reserve.

Agriculture is particularly focused on fishing as international rights to the sea provide a vast ocean reserve especially for a widely available and popular variety of ocean fish that is exported to international markets. The country also exports dried mangos, dried mango chips, mango sauces, mango jams and jellies, mango cakes, mango scented pillows, mango edible children's toys, and mango based spirits. Unfortunately, an insect appeared to be imported by a foreign tourist in some food products and is infecting the mango crop. It appears to have no local natural predator. Until effective controls are discovered, the outlook for mango production is grim.

Other agriculture, aside from the mango production, is limited to supplying local markets with fresh vegetables, poultry, eggs and some dairy products.

The currency in Wonderland is "Benas" described as "\$Be". The currency floats freely in international markets.

Figure 2: GDP by Sector



International Links

Wonderland is part of a group of countries known as the Association of Tropical and Culturally Harmonized Officially Organised States (ATCHOOS) formed 10 years ago to increase economic integration, trade harmonization and defence cooperation. All other member states are on the nearby continent – Wonderland is the only island chain. The other states also have a larger geographic size, more diverse economies, and larger populations.

Minister Tanoo is pushing at the ATCHOOS Finance Minister's Forum meetings for a renewed push toward closer economic union particularly in the finance sector. This has brought him considerable publicity in Wonderland as well as through the region since his appointment when the new government came to power. He has spoken of the advantage to Wonderland as a number of the regionally operating banks and insurers are headquartered in Central City.

Finance Sector

Two of the ATCHOOS region's largest banks (InterBank and RichBank) operate throughout the region and are head-quartered in Wonderland. They are listed on the Wonderland Stock Exchange (WSE) and on some major global financial centre exchanges. They provide a full range of services to both the retail and commercial sectors. There are also a number of locally incorporated savings and lending institutions that have their heritage in local community banks on the islands and focus on retail services to individuals and households. All of these institutions are regulated by the Wonderland Central Bank (WCB).

The insurance sector is long established and growing as it increases its reach into the rural and fishing communities. On a 'premium to GDP' measure (insurance penetration), the industry has advanced in health terms over the last five years in particular. Growth of a funeral funding product, and associated media promotions, has been identified as a key contributor to greater insurance awareness in communities. Two major WSE listed insurers are SecureLife and Home Security Insurance (HSI). They also operate in some other ATCHOOS countries. There are three other locally focused insurers.

From the Insurance Law and Supervisory Circulars

In Wonderland, there are several sources of information relevant to the insurance regulatory system.

The insurance law was first enacted in 1943 and has been amended from time to time, most recently in 1983. The Commissioner also issues circulars under the act. These are all set out later in this document.

Questions

1. When reviewing the legal and supervisory arrangements for licensing, do you consider that the requirements of the IAIS Insurance Core Principle number 6 are observed?
 - a. Group 1: Essential criteria a, b and g;
 - b. Group 2: Essential criteria c, d, and e;
-

Case Study: Licensing

Background

Mr Ernest 'Hitter' Homerun is a well known businessman in the region having been a sporting hero in his youth. After retiring from professional sport, he opened a grocery store in the capital of Otherland and successfully expanded over 25 years to build up a corporate grocery business in several ATCHOOS countries as well as property developments, hotels, and funeral services.

In most countries, the Homerun Group has successfully marketed their funeral services through the grocery stores and in hotel rooms. Under the headline "Go out hitting a homerun", the brochure explains that high quality funerals can be provided through advance purchase by making a smaller payment. A "luxury homerun" funeral normally costs \$Be5,000 but, through the prepayment, is discounted depending on the age of the applicant. The less expensive "safe homerun" funeral costs 80% of the luxury rate.

More recently, the company has determined that it wants to make its services available to a wider group with more limited means. As a result, it offers a similar set of options but only for death up to age 80. This cheaper product has proven attractive; close to 12,000 people in Wonderland have signed up.

The Commissioner has received legal advice that the prepayment clause in the insurance act means that the prepaid funerals are not considered to be insurance under the law and so no license is required. However, the new product cannot be exempt because it is not guaranteeing a funeral so includes a clear insurance element. They advise that enforcing the relevant legal provisions would render the contracts invalid as well and that, as a result, it would seem that the best course of action is to approach Mr Homerun and indicate that, rather than enforce the provisions of the law regarding insurance without a license, it is the commission's view that he should apply for a license immediately so as to formalize his operations and bring them into compliance with the law. Mr Homerun was agreeable and cooperative when approached.

The Application

The following are the details of the application for an insurance license from Homerun Insurance Services (HIS) Limited, as provided by the company and its officers.

Applicant	Homerun Insurance Services (HIS) Limited
Registration	The company was registered by the Registrar of Corporations two months ago with capital of \$Be 5 millions. It is 100% owned by the Homerun Group. The full corporate structure is summarized in Figure 3.
Board of Directors	<p>The company has a fully competent and distinguished board of directors comprising the following:</p> <p><i>Mr Edward Smartfellow:</i> Chairman, Age 62. Former Minister of Finance of Wonderland, currently Mr Smartfellow is a leader in the community. Since retiring from politics after the recent election, he has been in significant demand to take up board positions and now holds directorships at the National Library and Cultural Centre Trust, the Sunshine Trust for the Poor, Wonderland Telecom, and the International Association for the Safeguarding of the Arctic. Mr Smartfellow was educated with a degree in history from Wonderland University and an MBA from the Ivy League Business School in the United States of America. Before entering politics, Mr Smartfellow had a distinguished career with an international bank acting as Executive Manager for the ATCHOO region and was a managing partner at the international Accounting Firm HWMP and Partners in Wonderland.</p> <p><i>Mr Ernest Homerun:</i> Non executive director, Age 54. Widely respected businessman in the region. Mr Homerun was educated at the ATCHOOS Institute of Sport where he had a scholarship and completed a Bachelor of Science majoring in Physical Education with a sub-major in business and legal studies. He is a member of the National Olympic Committee in Otherland, a Director of Homerun International and a number of its subsidiaries.</p> <p><i>Professor Peter Out:</i> Non executive director, Age 78. An actuary by training, Professor Out is currently distinguished fellow with the actuarial program at Digby University located at their campus in the Azores. He has written extensively in respected actuarial journals on a range of topics, particularly on the actuarial aspects of taxation of insurance companies and the use of reinsurance products.</p>

Mr William Meilata: Managing Director, Age 39. As chief executive, Mr Meilata brings his experience in operating the Homerun organizational units in Wonderland covering the broad range of retail, property, tourism and other service organizations. As CEO and Managing Director of Homerun Insurance Services, he brings a key understanding of the operations of the group to the board. Mr Meilata holds a business management certificate from the Wonderland Business Schol and has over 20 years experience in commercial management in the country.

- Audit Committee:** The Board has determined that the Board Audit Committee will be constituted by the members of the Board with the exception of the Managing Director. This implies that the board audit committee is fully independent of management.
- External Audit:** The Board has determined that Mr Calculata, an approved auditor for several insurance companies in Wonderland and a partner of HWMP and Partners, is to be the external auditor for HIS.
- Approved Actuary:** The board has engaged the services of Mr Robert Upforaire as its actuary. He is a Fellow of the International Actuarial Federation and the President of the regional ATCHOOS Actuarial Society.
- Management and Organisation:** The HIS management structure will be integrated into the Homeland Group operations in Wonderland and globally. Mr William Meilata is the managing director and CEO (refer above for details). Other executives are:
- Miss Countessa Beans (age 31), Chief Financial Officer:* Responsible for all financial operations, Miss Beans currently acts as the accounting officer for Homerun Funeral Services. She has an accounting degree from Overland University, is a fellow of the ATCHOOS Accounting society and serves on their membership committee.
- Mrs Rose Colored-Glass (age 53), Chief Operations Officer:* Responsible for all operational elements including underwriting, administration of records, and the oversight of the reinsurance arrangements. As current head of administration services at the Wonderland Beach Resort, and with an MBA from the Overland University, she has held various administrative and strategic roles in the Homerun Group after starting her career at the Smartfellow Accounting Group and, after its merger, HWMP.
- Mr Digby Cash (age 51), Chief Investment Officer:* Responsible for all investment and asset management issues, Mr Cash is joining the group after his recent relocation to Wonderland after a career as an investment manager in both north America and European capital markets.
- Business Plan:**
- Mission and Strategy:* The board has determined that ht emission of HIS is “to provide valued insurance services of a high standard meeting
-

the needs of our clients”. The strategic stance is “to establish a financially sound, secure, and quality insurance business through high quality underwriting, investment, and customer service functions to meet the needs of our clients whilst providing an adequate financial return to shareholders and other stakeholders”.

Key Products:

HIS will issue the following insurances:

Guaranteed Homerun Funeral Insurance: Providing cover for funeral services provided through the group’s funeral home businesses, customers pay a single premium in return from the payment of funeral costs. Customers can select from basic or luxury levels, and can select either lifetime or age limited to age 80. Premiums have been established based on actuarial advice. Commissions of 10% of the premium are payable for distribution.

Heavenly Protection: Provides, in return from a monthly or annual premium, funeral services so long as the premiums continue to be paid. Basic level only. Premiums based on actuarial advice. Commissions will be 5% of each premium paid as received.

Commercial property and associated covers: HIS will provide commercial insurances to the Homeland Group. No commissions will be payable.

Distribution:

All publicly distributed products will be distributed through the group’s funeral homes under an agency agreement paying the commissions set out above.

Administration:

Administration will be managed through the Chief Operations Officer. IT, accounting and other services will be provided by the group to maximize economies of scale and synergies.

Risk Management and Reinsurance:

Homerun will reinsure with well rated global reinsurance companies.

Financial Projections:

Financial projections are set out below

Approvals Required:

It is proposed that the Commissioner

1. grant a license as an insurer to HIS based on this application.
 2. approve Mr Calculata as the external auditor.
 3. approve Mr Smartfellow as the chairman.
 4. approve Mr Meilata as the CEO.
-

5. approve Mr Upforaire as the actuary.

Figure 3: Corporate Structure of the Homerun Group

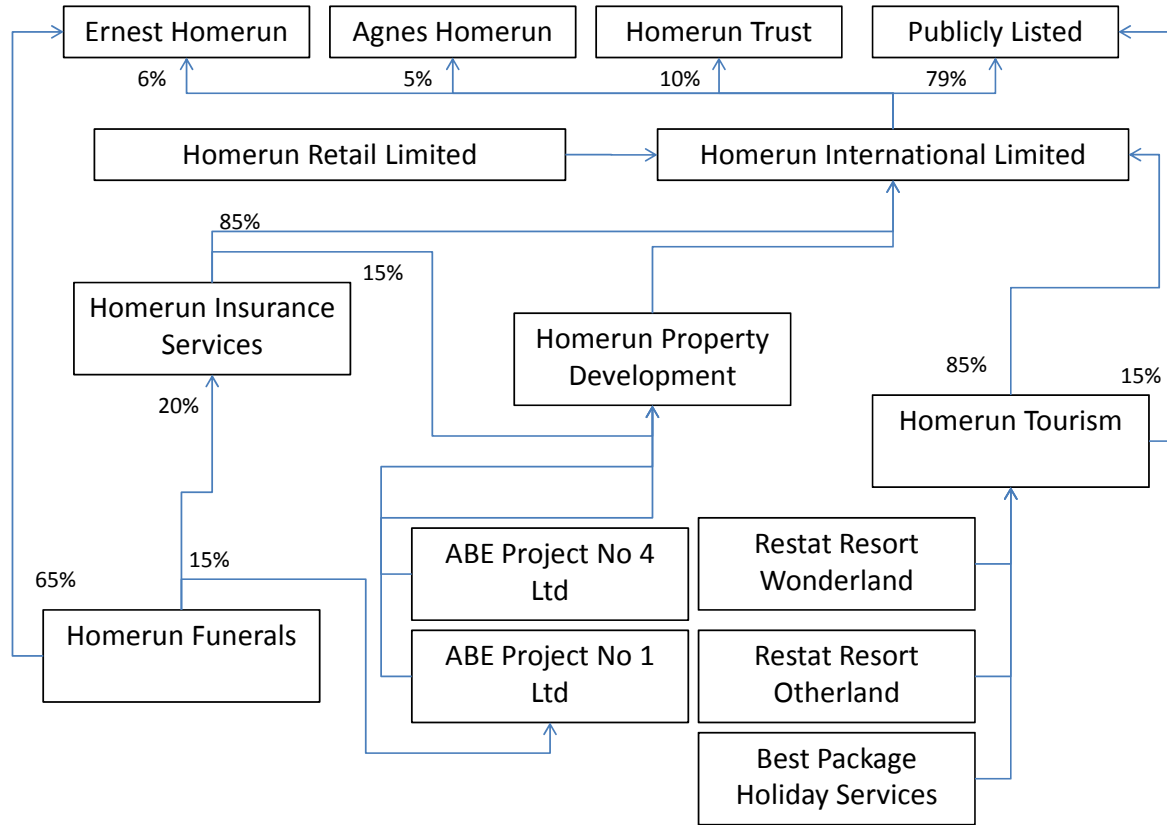


Figure 4: Financial Projections (all in \$Be'000s)

Year	Commencement	1	2	3
Premiums - Life				
Single		5,000	6,000	7,200
Regular		40	80	120
Premiums - Non-life				
Annual		500	550	605
Investment Income		500	987	1,594
Expenses				
Commissions		502	604	726
Claims		375	413	454
Other expenses		121	152	190
Increase in provisions		4,474	5,168	6,214
Profit before tax		568	1,280	1,934
Profit after tax		398	896	1,354
Assets				
	5,000	9,872	15,936	23,504
Liabilities				
Policyholders - Life		4,274	9,422	15,614
Policyholders - Non-Life		200	220	242
Capital	5,000	5,398	6,294	7,648
Capital Requirement	5,000	5,000	5,000	5,000

The key assumptions that have been used in developing these projections are:

- Premium Income: Single premiums of \$5,000 on average per policy in the first year and 1000 policies sold. Business increases at 20% per annum through combined effects of CPI increases in premiums to provide for increased cost of funerals and increased sales volumes. Regular life premiums from new business estimated to be \$Be40,000 in first year and the same in subsequent years with growth offsetting non renewals. Non life premium income estimated from current corporate insurance costs less 10%, projected to increase at 10% per annum with additional coverages as business continues to grow.

- Investment income estimated as 10% of assets at start of each period.
- Commissions as per description above, based on premiums received.
- Claims shown are 75% of non life premiums. All claims are assumed to be paid when advised of claim event so no provision made for outstanding claims provisions. Life claims assumed to be equal to actuarial reserve.
- Other expenses assumed to be 2% of income. This figure is in line with contractual arrangements for administrative services with the Homeland Group.
- Taxation is assumed to be 30% of profits before tax. All profits are assumed to be retained for the purpose of the projections shown.
- Life provisions are assumed at 85% of single premiums and 60% of regular premiums. Non life provisions are assumed at 40% of premiums.

Questions

1. When reviewing the application, do you consider that it **provides all of the elements that are required** under the **legal obligations**? If not, what elements do you feel are missing or less than fully adequate? What action would you propose that the Insurance Commissioner takes as a result?
 2. With respect to the **corporate governance, structure and fitness and propriety obligations**, do you feel that the proposal is acceptable? If not, what shortcomings or concerns would you have? What action would you propose that the insurance commissioner takes as a result?
 3. With respect to the financial information provided in the application, do you feel that the application is acceptable? If not, what shortcomings or concerns would you have? What action would you propose that the insurance commissioner takes as a result?
-

Background Documents

The Insurance Law of Wonderland

This is the full text of the insurance law.

- I. **Title:** This act shall be known as the *Insurance Act*.
- II. **Objective:** The objective of this act is to provide for the protection of policyholders and the orderly development of the insurance market.
- III. **Definitions:** In this act, the following words will be defined accordingly.
 - a. **Approved Actuary** means a person approved under section XVII of this act.
 - b. **Approved External Auditor:** means a person approved under section XVI of this act.
 - c. **Associates** are other persons that are associated to a person by means of being a parent, sibling, spouse, or child of that person.
 - d. **Chief Executive Officer** means that person appointed by an insurer to oversee and manage its operations.
 - e. **Commissioner** means the Insurance Commissioner appointed under section IV of this act.
 - f. **Independent director** means a director that is not a full time employee of an insurer.
 - g. **Insurance** means
 - i. **Life insurance:** the provision of defined benefits dependent on the event of death, disability, dismemberment, sickness, accident, or the survivorship of human life, or
 - ii. **Non life insurance:** providing indemnity for the physical loss or damage to property or as a result of the legal liability to others.
But does not include providing
 - iii. benefits under the *Social Security Act, 1993*;
 - iv. a warranty against the failure of a product within 3 years of the purchase of that product;
 - v. reinsurance; or
 - vi. contracts for the prepayment for goods and services.

- h. **Insurance activity** means the prospecting for, sale of, and issue of contracts that provide insurance benefits as well as the collection of premiums, the assessment and payment of claims arising under those contracts, and associated activities such as the maintenance of records, investment of funds, and such activities that are a direct consequence of the issue of contracts to provide insurance benefits.
- i. **Insurer** means an entity licensed under section XII of this act.
- j. **Minister** means the Minister of Finance or his delegate.
- k. **Reinsurance** means the services that would otherwise be insurance under this act except that the beneficiary of the services is an insurer.

Insurance Commissioner

- IV. **Appointment:** The Minister shall appoint a Commissioner to oversee the insurance sector under this act.
 - V. **Reporting:** The Commissioner shall
 - a. cause an annual report on their activities to be made to the Minister who shall cause it to be laid before the parliament; and
 - b. provide the Minister with such briefings, updates, and communication as the Commissioner believes necessary from time to time.
 - VI. **Delegations:**
 - a. The Minister may, by written instrument, delegate powers under this act to the Commissioner or to another minister of the government in the event that such delegation is appropriate for the effective administration of this Act.
 - b. The Commissioner may, by written instrument, delegate powers granted to the Commissioner under this act when such delegation improves the effective administration of this Act, except that the Commissioner may not delegate powers granted under delegation from the minister under section VI.a.
 - c. Delegations under this section can be rescinded by written instrument.
 - VII. **Directions:** The Minister may, in writing, give the Commissioner such directions as he deems appropriate for the effective operation of this act provided that the instrument of direction is laid before the parliament. Such directions take effect not sooner than 14 days after the direction is delivered to the Commissioner.
 - VIII. **Confidentiality:** The Commissioner, and any staff or contractors engaged to assist the Commissioner, must keep all information obtained in the conduct of their duties absolutely confidential except
 - a. When required to inform the Minister;
 - b. When requested by the Wonderland Central Bank; or
-

- c. When disclosure is in the public interest and such disclosure is approved by the Minister.
- IX. **Legal Protection:** The Commissioner, and any staff acting under the authority or delegation of the commissioner, shall carry out their responsibilities with due care and diligence. When doing so, or thereafter with respect to an action taken under this act, no party may bring an action against the commissioner or a staff member in their personal capacities provided that the action was taken in good faith.
- X. **Dismissal or Resignation, and Replacement:** The Minister may, in writing, dismiss the Commissioner and appoint a new person to be Commissioner if the Commissioner:
 - a. provides the Minister with a written letter of resignation;
 - b. fails to comply with a direction under section VII of this act;
 - c. is convicted of a criminal offence;
 - d. files for bankruptcy or makes an enforceable undertaking with creditors; or
 - e. Is, in the opinion of the Minister, unable to carry out the responsibilities of Commissioner under this act due to extended infirmity or death.

Licensing

- XI. **Unlicensed activity is an offence:** It is an offence under this act to conduct or attempt to conduct insurance activity or to contend to do so to any person unless licensed under section XII of this act. Maximum Penalty: \$Be100,000 for each instance or two years in prison or both.
 - XII. **Licensing:** The Minister may license a body corporate registered under the *Corporations Law 1983* to conduct or carry on insurance business provided that the Minister is satisfied that the applicant for a license:
 - a. has provided such information as is specified in regulations or circulars;
 - b. has provided satisfactory responses to any questions from the Commissioner as a result of their application;
 - c. is, and can be expected to continue to, meet the obligations to policyholders and under this act.
 - XIII. **Conditions:** The Minister may issue a license under section XII of this act with or without conditions or, for an insurer that is already licensed under this act, may impose conditions on a license that has been issued subject to the following:
 - a. any condition will be advised to the insurer not less than 60 days before it comes into effect;
 - b. the applicant, or insurer, may appeal such a condition at any time seeking its amendment or removal to the Minister who, after 30 days from the date of receiving such an appeal, shall make a determination and amend, remove, or maintain the condition in line with that determination; and
-

- c. a notice of a condition shall be published in the *Official Gazette* when it is made, amended or removed.

Corporate Governance

- XIV. ***Boards of Directors:*** At all times, an insurer shall have a board of directors that has at least two independent directors.
- XV. ***Chief Executive Officer:*** At all times, an insurer shall have a full time chief executive officer who reports to the board of directors and is responsible for the day to day management and operation of the insurer who is approved by the Commissioner.
- XVI. ***Approved External Auditor:*** At all times, an insurer shall have an external auditor who is approved by the Commissioner.
- XVII. ***Approved Actuary:*** At all times, an insurer that is licensed to issue life insurance contracts should secure the services of an actuary approved by the Commissioner.
- XVIII. ***Suitability of persons:*** Any person having the role of Chairman of the Board, Chief Executive Officer, Approved External Auditor, or Approved Actuary of an insurer shall be suitable for the role provided that they:
- a. Have not, at any time, been bankrupt, filed for bankruptcy, or made enforceable undertakings with creditors;
 - b. Have not been convicted of a crime;
 - c. Are of good ethical standing; and
 - d. Have the necessary skills, qualifications, to ensure their competence.

In the event that a person is not able to meet these criteria they shall not be appointed by the insurer or, if already appointed, shall be removed from their position.

Capital and Solvency

- XIX. ***Minimum Capital and Solvency:*** At all times, an insurer must maintain assets in excess of its liabilities at least equal to the greater of
- a. \$Be5,000,000
 - b. 15% of premiums written on policies of non-life insurance in the preceding 12 months after deduction of premiums paid to reinsurers with respect to non life insurance business; and
 - c. 20% of the provisions for outstanding claims for non life insurance policies at the time, net of allowances for associated reinsurance recoveries; and
 - d. 4% of liabilities under life insurance policies as determined under sub-section XX.a.
- XX. Liabilities: The liabilities for the purposes of section XIX shall include:
-

- a. Amounts determined by the approved actuary as required to ensure that the insurer can be reasonably expected to meet its obligations under life insurance policies as they fall due;
- b. An unearned premium provision representing the proportion of non life premiums that have been received but the insurer in the 12 months up to the balance date that is associated with insurance risk that occurs after the balance date, subject to a minimum of 40% of such non life premiums in aggregate; and
- c. An outstanding claims provision with respect to the estimated amount required to meet claims on non life insurance contracts that have occurred before the balance date but have not been fully settled and paid at that date.

Noting that each of these provisions can be determined with a corresponding deduction to be taken to allow for expected recoveries from reinsurance contracts in place.

- XXI. Notwithstanding the requirements of section XX, the commissioner may place general or specific requirements on insurers or make a determination as to the acceptable minimum valuation to be placed on their liabilities at any time through written directions.
- XXII. Assets: The assets for the purposes of section XIX shall include all assets owned directly by the insurer valued at their assessed market valuation; except
- a. Property, fixtures and fittings;
 - b. Amounts owing from others that are not secured and have been outstanding for more than 90 days;
 - c. Loans to directors, employees, or their associates.

Reporting to the Commissioner

- XXIII. Annual and Quarterly Returns: All insurers will provide information in the form prescribed regarding their business statistics and financial status on an annual and quarterly basis.
- a. Annual returns will be provided within 4 months of the balance date and will be signed as accurate by the Chief Executive Officer.
 - b. Annual returns will also include a certificate of assessment of veracity from the approved auditor.
 - c. Quarterly returns will be provided within 4 weeks of the end of the quarter in the form prescribed.
 - d. The Commissioner may, on application from the insurer and with good cause, provide an extension on submission of some or all of the forms required under this section by not more than one week.
-

- e. Failure to submit returns in a timely fashion in accordance with this section will lead to a fine of \$Be2,000 per day that the required forms are not submitted.

Additional Powers of the Commissioner

- XXIV. ***Requests for Information:*** The Commissioner may, at any time, require insurers, their CEO's, actuaries or auditors or other functionaries, to respond to specific questions. Failure to do so is an offence under this act and is punishable by a fine of up to \$Be5,000 for the first occurrence and \$Be20,000 for each occurrence thereafter.
 - XXV. ***Inspection of Insurers:*** The Commissioner may, on 7 days written notice, enter the premises of an insurer and inspect, copy or otherwise record the contents of any or all records pertaining to the insurance business of that insurer.
 - XXVI. ***Directions to Insurers:*** If, at any time, the Commissioner believes that the rights and entitlements of policyholders would be at risk, the Commissioner may issue a direction in writing to an insurer to either take a specified action or to desist from a specific action as the case may be.
 - XXVII. ***Circulars:*** The Commissioner may issue circulars to elaborate on the interpretation, meaning, and content of this act provided that such circulars are consistent with the content and intentions of this act.
-

Commissioner's Circulars



**Government of Wonderland
Insurance Commission**

**Circular Number 23 of 2007
Licensing**

TO: All Insurers and Interested Members of the Public

I have determined that it is beneficial to the development and transparency of the insurance market to provide guidance on the making of applications for a license under section XII of the *Insurance Act* and to outline the criteria that the Commission will consider with respect to such applications.

Ministerial Delegation:

A ministerial delegation is in force whereby the responsibilities of the Minister under the sections of the act relating to licensing have been delegated to the Commissioner. This delegation was signed by Minister Smartfellow on April 1, 2002 and was published in the Official Gazette edition for that month and year.

Early communication is encouraged. The commission will assign a dedicated officer to assist with applications:

Potential applicants are encouraged to discuss their intentions with the Commission at the earliest possible stage. At this point, the commission will advise the documentation that is required for a formal application. This will include

- The name of the applicant company and the certificate of incorporation;
- The names of directors, senior officers, and actuaries (if required) and evidence as to their fitness and propriety as required under the act;
- The structure of ownership of the applicant company;
- Arrangements for external audit
- A descriptive business plan including the mission, objectives, strategies, and key products covering the initial phase of the operations;
- Financial projections for the operations for a period of three years including evidence that the business will be financially sound;
- A description of the arrangements for risk management and mitigation, financial control, information technology and administration.

The Commission will also assign an officer to act as liaison for the application and to address any questions that the applicant may have as they prepare the full application.

Inadequate applications and appropriate confidentiality:

It is the policy of the Commission, to the extent possible, to work with applicants toward an acceptable license outcome. The commission is bound by the secrecy requirements under the Act. At the same time, it is most appropriate that applicants do not disclose the detail of their applications until a final decision is made on the application. Applicants should only confirm that they have made an application but not the content or details of the application as these should always be considered to be a matter for discussion between the Commission and the applicant.

Applications from foreign owned or controlled entities:

When applications are received from entities that are foreign owned or controlled then the Commissioner will consult with the supervisory authorities in the home jurisdiction of the applicant.

Criteria for considering applications:

The Commission will consider license applications based on the obligations under the act, including the continuing ability to meet the obligations placed on insurers by the supervisory and regulatory arrangements.

The Commission does not make any judgment with respect to applications regarding whether or not they make a sufficient contribution to the development of the insurance market, the wider economy, or provide particular services. That is, applicants do not need to demonstrate to the commission that there is a developmental benefit to the market. However, when reviewing the assumptions of business plans and projections, the commission does form a view as to the reasonableness of the assumptions and this assessment would be less favorable if the proposals would seem to have limited application in the local market coupled with assumptions that appeared to be optimistic. Also, however, it is necessary to outline the business proposal in some detail to enable the commission to ensure that the application should not be declined if it is not in the public interest.

Prudence Applepie
Commissioner
December 12, 2007



**Government of Wonderland
Insurance Commission**

**Circular Number 3 of 2005
Competent and Effective Boards**

TO: All Insurers

I have determined that it is beneficial to the development and transparency of the insurance market to provide guidance on some additional expectations that the Commission has regarding boards of directors. These requirements are, in the Commission's view, consistent with the intention of the Insurance Act. The Act has specific requirements relating to boards of directors in the act (especially sections XIV, XV, XVI, XVII, and XVIII), it is also the case that section XII.c indicates that all licensed insurers are expected to be able to meet their obligations under the act and that section XXVI provides that the commissioner can issue directions for the safety of policyholders. These broad powers support the view that the Commissioner holds that the protection of policyholders is advanced not only by should corporate governance as set out in the act but through the more general obligations to have sound and competent boards of directors that are effective in carrying out their functions.

To this end, the Commissioner notes that a direction could be issued should any insurer not conform to the following minimum practices of sound corporate governance over and above those already stated in the act.

1. All insurers should have independent board members under the Act. The act itself indicates that at least two directors should be independent. In addition, and to reinforce best practices and international trends, the Commissioner considers that:
 - a. the majority of the members of the board should be independent of management;

- b. the chairman should be functionally independent from the chief executive officer;
 - c. the board should be composed of members with a range of experiences and training such that, collectively, they have the necessary skills and abilities as is reasonably required for the operations of the insurer of the size and complexity that exists.
 - d. all board members should be provided with appropriate training on appointment and on an ongoing basis consistent with the nature of the insurance business.
2. All insurers should have a committee of the board designated as the board audit committee. This committee should be constituted by some or all of the board members, be independent of management, and be responsible for such issues as are delegated to it by the Board but, in particular, the nomination of the external auditor and the assessment of the performance of the external auditor. The External Auditor, and in the case of an insurer that issues life insurance contracts, the actuary, should both have the authorization to be present at all meetings of the board audit committee and to raise any matters that they feel, as part of their obligations and responsibilities, should be drawn to the attention of the committee. All written communication from the Insurance Commission should also be tabled and noted by the board audit committee.
 3. The external auditor, and the actuary in the case of an insurer that writes life insurance contracts, should be a member of a recognized professional association and subject to a code of ethics and professional conduct. The external auditor should be experienced not only in audit matters but also in the specific elements of accounting practices relating to the insurance sector.
 4. With respect to an insurer that issues life insurance contracts, the board audit committee should also be responsible for identifying, engaging and monitoring the performance of the insurer with respect to actuarial matters. They should receive reports from the actuary on all relevant matters relating to establishing provisions, setting tariffs and premium rates, establishing investment policies, reinsurance arrangements, and the determination of distribution of surplus to policyholders who may be entitled to participation in such distributions.
 5. All insurers should conduct a periodic review of their governance structures including considering whether or not the complexity, size and nature of the insurance business has changed such that they should consider changes to the skills required on the board and whether additional committees of the board may improve the effectiveness of the oversight provided by the board over the operations of the insurer.

With effect from the date of this circular, all companies licensed after this date will have these requirements reflected in standard conditions on their license. For existing insurers, the requirements are taken as read, and will be enforced through directions to individual insurers if necessary.

Prudence Applepie
Commissioner
January 29, 2005

