

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS



SUPERVISORY STANDARD ON LICENSING

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Supervisory Standard on Licensing

Report from the IAIS Technical Committee

Licensing plays an important role in ensuring efficiency and stability in the insurance market. Strict conditions governing the formal approval of insurance companies are necessary to protect insurance users. The licensing process may also help ensure that fair competition exists among companies in the market.

The “Insurance Supervisory Principles” (level-one standards) adopted by the IAIS contain general principles which are attached as an Annex to this standard.

Given the framework of these general principles, this standard contains requirements that should be met by an insurer seeking a licence, as well as principles that apply to the licensing procedure itself, including the review of changes in the control of a licensed company. In some instances the standard goes beyond issues strictly related to “licensing” and may need to be revised in the future as new supervisory standards dealing specifically with these issues are prepared.

This standard deals with the prudential aspects of licensing. Although there may also be other aspects to consider in the licensing process, this standard does not deal with them.

The IAIS recognises that member countries have different legal and supervisory structures and supervisors may need to adapt this standard to their particular circumstances.

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I. Background

1. The provision of private insurance is a very important economic activity. Insurance increases for instance the credit standing of a company and hence its funding potential. It offers certainty of planning, thus making technical progress possible. By compensating for losses, it maintains the production capacity and may consequently prevent unemployment. Life insurance plays a significant economic role in mobilising personal savings.

2. Compared to other sectors of the economy, however, insurance takes up a special position. All the insurer offers in return for the insurance premium already received is in many cases the mere promise to perform its services if a claim arises in the future. Therefore, the policyholder must be able to trust the insurer to be able to keep this promise if the insured event occurs. The failure of one insurer could have negative consequences for the entire sector. A disturbance in the relationship between the policyholders and their insurance company could affect the public confidence in the financial system.

3. The role of supervision by or on behalf of the state is to ensure that insurance companies are able at any moment to fulfill their obligations and that the interests of the policyholders are sufficiently safeguarded. The licensing procedure is the first step towards achieving these objectives. It is one of the most important elements of the supervisory system. If the licensing procedure as well as the on-going supervision of licensed insurers meet internationally accepted standards, confidence in the supervisory systems will grow on a domestic level as well as on an international level. Such confidence may facilitate mutual recognition of national supervisory systems and thus the liberalisation of market access for foreign insurers.

II. Definitions

4. The following definitions apply to the terms used in this paper:

Branch:¹ part of a company, not being a separate legal entity, established in a jurisdiction other than the company's home jurisdiction. In some jurisdictions there may exist other forms of permanent presence (e.g. agency).

Cross border provision of services:¹ provision of insurance on a services basis (without local establishment) in a jurisdiction other than the company's home jurisdiction.

¹ These terms do not always apply in the sense given here when jurisdictions within states with a federal structure are concerned. In such cases cross border refers to crossing the borders surrounding the jurisdictions of the federal structure but not inside it.

² These terms do not always apply in the sense given here when jurisdictions within states with a federal structure are concerned. In such cases foreign refers to jurisdiction surrounding the federal structure but not jurisdictions inside it.

Domestic/foreign:² inside/outside the jurisdiction: in connection with an insurer, *domestic* or *foreign* refers to the place where the company concerned is incorporated, irrespective of the place of incorporation of its parent company.

Home jurisdiction: jurisdiction in which an insurer has its head office.

Host jurisdiction: jurisdiction in which a foreign insurer operates by way of a local branch or on a services basis without local branch.

Home/host supervisor: supervisor of the home/host jurisdiction.

Jurisdiction: jurisdiction refers to a territory with local insurance laws that relate to the incorporation or operation of insurance companies. This territory as a rule is the national territory and at the same time the territory of the insurance supervisor's competence. In certain cases this may be the territory inside a state with a federal structure, e.g. the states making up the USA.

Qualifying participation: a participation held directly, or indirectly through one or several subsidiaries, by a natural or legal person, of at least X % in the company, or – also in the case of a lower percentage – a participation enabling the shareholder to substantially influence the company's management. X is defined in accordance with domestic law (10 % or 20 % are common threshold values).

III. General licensing principles

The term “licence” in this paper – scope of application

5. In this paper, licence refers to the authority to operate business in the domestic market which under domestic law:

- is defined as insurance business;
- is based on contracts between the company offering the business and the policyholders; and
- is subject to supervision by the competent authorities.

6. Licence refers only to the formal authority to operate business in the meaning of the domestic supervision law, it does not refer to approvals in the meaning of the general trade or company law.

7. The following sections apply to direct insurers that also may accept ceded business, but not to pure reinsurers. This paper does, however, apply, unless stated otherwise, to foreign insurers who operate by way of establishment or on a services basis without local establishment. This paper does not deal with the licensing of natural or legal persons intermediating insurance.

Types of company which must be licensed

Domestic insurers

8. Legal entities operating direct insurance business as defined in the respective insurance supervision law should always be licensed, irrespective of their area of operation. As to the exceptions, see paragraphs 15-17 below.

Foreign insurers

9. There are two ways in which foreign insurers may operate:

- a. by a local branch; and
- b. on a services basis.

As a rule, the licence should be given by the host supervisor if the insurance business is to be operated by one of the two above methods. As an option, however, a foreign insurer may be allowed to operate only by setting up a branch in the domestic market.

10. Before giving a licence the host supervisor should at least be provided documentation including:

- the name and address of the place of incorporation;
- the types of insurance which the company proposes to write;
- confirmation from the home supervisor that the company is indeed authorised to carry on the types of insurance business proposed;
- confirmation by the home supervisor that the company is solvent and meets all the regulatory requirements in the home jurisdiction; and
- additionally, in the case stated in paragraph 9a above, name and address of the branch and the authorised agent in the host jurisdiction. The licensing requirements in section IV below apply when appropriate. See also principle 3 of the Principles Applicable to the Supervision of International Insurers and Insurance Groups and their Cross-Border Establishments, issued by the IAIS in 1997.

11. A foreign insurance company may be allowed to operate, without an approval from the *host* supervisor where, for example, bilateral or multilateral agreements are in place which ensure that the company:

- is subject to supervision in its home jurisdiction which has been recognised as adequate by the host jurisdiction; and
- may be subject to sanction if it does not meet the legal provisions of the host jurisdiction.

Subsidiaries of foreign companies

12. Companies which are incorporated in accordance with domestic law but which are partially or wholly foreign-owned subsidiaries should in principle meet the same licensing requirements as domestic insurers.

Types of business which must be licensed

Insurance business

13. “Insurance business” in this paper is understood to mean such business as is to be called insurance in accordance with *domestic* law. It is obvious, however, that different interpretations of insurance business could lead to supervisory problems, especially where cross-border operations are concerned.

Distinction between insurance and social security

14. This paper does not deal with companies or types of business which are part of the social security system. However, in some jurisdictions it may be possible for people to replace coverage under the social security system by concluding an insurance contract (e.g. for pensions) offering protection equal to that provided by the social security system. This paper deals with these “substitutive” insurances, as well as with private insurance of a social and/or compulsory nature (e.g. medical health insurance, third party liability insurance for motor vehicles and personal pension insurance).

Insurance business which may not be licensed

15. *Small mutual societies* whose activities are limited to a certain geographical area and/or limited to a certain number of policyholders and/or who offer special types of cover (death benefit, livestock insurance) may not be licensed in some jurisdictions. The reasons for this fact could be that the insured sums do not exceed certain amounts, or that losses are compensated by payments in kind, and that the activities are pursued following the idea of solidarity.

Correspondent insurance

16. Where insurance contracts are concluded with an insurer in another jurisdiction on a services basis without the initiative of this insurer, the latter may not have to be licensed in the country of his client.

Products which are not offered by licensed domestic insurers

17. Sometimes, certain very specific risks situated in the country are not covered by domestic insurers. This may concern specific large risks (nuclear energy, natural disasters) or very specific personal risks (e.g. professional indemnity). For cases like these, i. e. where an ‘insurance shortage’ is concerned, the domestic law can provide that these risks may be covered by foreign insurers without these insurers requiring a licence.

The domestic law may similarly permit maritime shipping, commercial aviation and goods in international transit to be insured by foreign insurers without these requiring a licence.

Scope of licence

18. *Regarding activities:* Since the application for a licence is examined on the basis of having information on the proposed types of business, the licence should take into account classes of insurance which are to be operated and may be applied for and granted with respect to particular classes of insurance. As regards classification, domestic law should categorise insurance business into types and classes of insurance (at least into life and non-life). In doing so, it may rely on internationally accepted classifications (e.g. OECD classifications).

19. *Regarding period of time:* A licence should in principle be granted for an unlimited period, given that insurance is by nature a long-term business. Renewing the licence at regular intervals (e.g. annually) could however be an effective measure for the supervisor to ensure that the business of a new insurance company develops in the course of the first few years according to the business plan (see paragraphs 32-36 below).

VI. Licensing requirements

Preliminary remark

20. Active business life of an insurance company starts once the licence has been granted or, if registration is required *after* the licence has been granted, once the registration has been accomplished. During its course the company is subject to on-going supervision. The requirements which were preconditions for granting a licence should be met at all times during the on-going business operations. This applies to capital adequacy, suitability of managers and owners, adequate reinsurance etc. The supervisor should also always be able to obtain information on the type of business operated.

Legal form and head office of the company

21. Each jurisdiction should *define* the permitted types of legal form. Such legal forms should provide a certain stability of the company, as well as enable the creation of own funds, e.g. joint-stock company and mutual society.

22. Legislation should require that the location of the head office and also its central administration be situated within the home jurisdiction where the licence was granted.

Objective of the company

23. Insurance companies should not carry on any activities other than in connection with or for the purposes of their insurance business. Operation of business not related to insurance may

be allowed as an exception only in limited and defined circumstances.

24. The objective of the company should be defined in the company's articles of incorporation.

Specialisation

25. A company licensed to operate life insurance should not be licensed to operate also non-life insurance and vice versa (principle of specialisation), unless there are clear provisions, satisfactory to the supervisor, to handle a separation of risk on both a going concern and winding-up basis. As an exemption from this principle, however, the operation of other classes of personal insurance (e.g. accident, health) together with life insurance could be authorised.

26. Companies already doing business of both kinds ("composite companies") may continue to do so, provided they maintain separate book-keeping and accounting for life and non-life insurance operations and provided they take appropriate steps to ensure that life insurance policyholders are not at risk from losses in the non-life sector and vice versa.

27. Specialisation may not prevent a non-life insurer from taking substantial shareholdings in a life insurer (or vice versa). Regulation should, however, provide that the surplus resulting from prudential assumptions in life insurance is not diminished in a way that affects the reasonable expectations of the policyholders.

Minimum capital

28. An important licensing requirement is the establishment of sufficient free capital. This is an absolute amount fixed by the supervisor or by law (minimum capital). The amount of the minimum capital should take into account the type of risk that is intended to be covered. If the applicant company proposes to write several classes it is possible either to require the highest of the amounts fixed for the individual classes or to add up the amounts of the individual classes.

29. The required minimum capital should by no means be used to compensate normal foreseeable fluctuations in the development of certain risks. It should be uncommitted so as to be available if unforeseeable losses of any kind are to be covered. Nor should the setting-up costs be covered by this minimum capital. For additional financial requirements, see paragraph 35 below.

30. Proof of the minimum capital should be submitted to the supervisor. The elements making up the minimum capital should be shown as part of the proof.

31. In order to ensure the guarantee function of the minimum capital, legislation could require a deposit. The company may only dispose of this deposit with the supervisor's approval.

Business plan

32. The supervisor is to request the submission of a business plan describing the proposed business of the company for at least three years ahead. This plan should demonstrate satisfactorily that the company will be able to maintain a sound financial situation and meet its obligations at all times during the first years. The business plan should include the following information and proofs:

the types of obligation the company proposes to incur (life insurance) or the types of risk it proposes to cover (non-life insurance)

33. This information is particularly important for determining the amount of the financial resources the company should possess during the initial stages. It should not be restricted to the indication of the classes of insurance according to the national classification. Instead, the nature of the risks and the target group with which the company intends to conclude the contracts should be described in as detailed a manner as possible (see also section “Product Control” below). The company should provide information on whether it also proposes to accept reinsurance business, and if so, in which insurance classes.

the basic principles of the company’s reinsurance policy

34. The company should describe how and to what extent the expected contracts are to be reinsured. Prudent founders will at this stage already have consulted with reinsurance companies and be able to present a reinsurance programme. The supervisor should be convinced that the reinsurance company has sufficient security or has pledged securities for the insurance company.

the estimated setting-up costs and the financial means to be used for this purpose

35. The company should describe how the structures needed to manage the expected portfolio of contracts are to be set up and through which channels (e.g. brokers, agents, distribution outlets) the products offered are to be distributed. The costs which will be incurred, depending on the intended development of the business, should be estimated. At the same time the company should prove that the financial means required for covering the setting-up costs will be available (organisation fund or equivalent).

projected development of business and solvency margins

36. The company should present for at least three years a projection of the expected development of business in the form of model profit and loss accounts. Simplified balance sheets and the expected liquidity situation should be considered on the basis of the same assumptions on business volume and structure, premiums, commissions, administrative expenses and claims expenses, investment income, and tax. The supervisor should be able to examine the projections to determine whether they are

realistic. It may if necessary require a review of assumptions, an increase of the organisation fund or equivalent, a different method for the calculation of premiums, or a different reinsurance policy. If the applicant company does not take account of the supervisor's objections, the supervisor may refuse the licence, or grant it subject to certain conditions, e.g. with respect to net risk retentions.

Suitability of directors and/or senior management

37. The managers of an insurance company should be suitable, since problems in the insurance industry are often due to mismanagement caused by personal and professional inappropriateness of directors and/or managers. Therefore, the supervisor should carefully check the suitability of directors and/or senior managers. The following criteria should be taken into account:

- a. *directors/senior managers must be professionally qualified.* Professional qualification requires theoretical and practical knowledge in insurance as well as managerial experience. These requirements can be deemed met if an activity of several years for an insurance company of the same kind and size can be proven. Expert knowledge may, however, also have been acquired outside the insurance industry if the person concerned has occupied a managerial post. The requirements should, however, depend on the area for which the person concerned will be responsible (e.g. data processing, personnel, fund management etc.);
- b. *directors/senior managers must be reliable and of good repute.* Reliability refers to a person's character. In assessing the latter, the supervisor should base its judgement on known facts and evidence. A reason to deny the licence would be if the supervisor had knowledge of facts from which it could be deduced that the person concerned will not manage the insurance company in a due fashion (previous conviction especially for an offence committed in connection with financial services; participation in unsound transactions; bankruptcies caused by dishonesty; tax evasion); and
- c. if, in special cases, senior management functions (e.g. authorised representative of a foreign branch) are performed by a company (legal person), the representatives of that company should meet the requirements under a) and b) above.

38. In order to enable the supervisor to check if the above conditions are met, the applicant may be required to submit a complete curriculum vitae of the proposed directors/senior managers signed in their own hand providing the following information:

- names and surnames, date and place of birth;
- private address and nationality;
- professional education (training/studies including dates, schools and universities, diplomas);
- membership in professional organisations;
- full record of the professional career (including the names of all employers for which the person concerned has worked previously; and

- type and duration of the respective activities (department, responsibilities).

39. The applicant should provide a declaration from the proposed directors/senior managers confirming that no criminal proceedings are or have been pending against them. The supervisor may also require the applicant to submit further particulars on the professional career of these persons, e.g. by answering a questionnaire elaborated by the supervisor.

40. The authorised agent of a branch has to meet the above requirements depending on his/her area of responsibility.

Suitability of owners (Control of shareholders)

41. The supervisor should know the names of the natural and legal persons holding a direct or indirect qualifying participation in the applicant company. The supervisor should be convinced that they meet the demands made in the interest of the sound and prudent management of the insurance company and that they are reliable.

42. The licence to operate should be refused if facts exist from which it can be deduced that the holders of a qualifying participation.

- are in a difficult economic situation;
- are or ever have been directly or indirectly involved in illegal transactions affecting their suitability, or intend to abuse the insurer for criminal purposes (e.g. money laundering); and
- are connected with the applicant company in a way that would obstruct or render effective supervision impossible.

43. Criteria similar to those listed under the section “Suitability of directors and/or senior management” above should be applied to check the reliability of natural persons. If legal persons are concerned, the supervisor should be authorised to ask for submission of audit reports and extracts from the register of commerce. It should have the power to exchange information with other authorities inside and outside its jurisdiction which respect minimum reciprocity and confidentiality requirements.

44. In the course of its investigation, the supervisor should also check if the structures of the group the applicant company is part of are sufficiently transparent to the supervisor and will not be a source of weakness. The supervisor should have the authority to prevent corporate structures that hinder the effective supervision of insurance companies.

Affiliation contracts and outsourcing

45. Contracts regulating important relationships with other companies, transferring functions to other companies (outsourcing), influencing the financial situation of the company or being in some other way relevant for an effective supervision should be submitted in

compliance with the supervisor's requirements. If the supervisor objects to the contents of such contracts, and if these objections cannot be removed, the licence could be denied or revoked. An a priori submission of these contracts is preferable.

46. The supervisor should consider the following types of contract:

- a. *affiliation contracts* through which a joint-stock company subjects itself to the management of another company (e.g. holding company), or commits itself to transfer its profits to that company. The supervisor should verify that the controlling company does not have any intervention rights that could be an obstacle to effective supervision;
- b. *outsourcing contracts* outsourcing means to transfer certain functions of material importance, (e.g. investment management, distribution, informatics, accounting etc.) from an insurance company to another company which need not necessarily also be an insurance company. The supervisor should especially see to it that supervision of the outsourced functions is ensured. This can be done by one of the following methods:
 - in relation to the outsourced functions, the applicant company reserves any rights to issue instructions to and obtain information from the company accepting the functions; and
 - the supervisor should have the power, where appropriate, to carry out on-site-inspections on outsourced functions to check if activities are carried out in accordance with the supervisory rules.

47. If functions are transferred to a subsidiary or another company being part of the same group, the supervisor should review the suitability and security of the contractual arrangements.

48. The outsourcing of central functions of an insurance business (e.g. managing bodies, accounting, portfolio management etc.) to a company in another jurisdiction is admissible provided that the requirements in paragraph 46b above are fulfilled. Supervision of the outsourced function could for instance be ensured by an agreement with the authorities in the other jurisdiction.

49. Contracts to the effect that the applicant intends to render services to other companies should be checked as to whether such services are part of the insurance business or directly related to it. In the case of contracting parties which are both part of one group the requirements under paragraph 47 above apply accordingly.

Product control

50. Insurance companies should not be regulated more than strictly necessary regarding the design of their products. The supervisor should however be empowered to request precise

information on the products that are to be marketed. Information could for instance be required on the design of the products which a newly licensed insurance company intends to market; this in order to be able to assess risks and to judge if the managers to be nominated have the necessary qualifications and if the planned organisation structures are suitable for the administration of such products. Possibly, the financial guarantees that should be provided also depend on the type of products offered.

a. General policy conditions

51. Information on products may also include the general policy conditions, which could be submitted a priori, a posteriori or non-systematically on demand.

52. Provisions should be in place ensuring that the cover offered by compulsory insurance (e.g. motor liability) or contracts replacing coverage under the social security system (substitutive insurance) is adequate and in accordance with domestic law governing these sensitive areas.

b. Technical bases for the calculation of premium rates and provisions

53. The supervisor should be entitled to request precise information on the technical bases used for the calculation of premium rates and technical provisions. This is important with respect to all products, whether the premiums are calculated on the basis of actuarial principles or not. The technical bases of all or most of the products may be systematically checked, especially if the company is new to the market. In life insurance as well as in compulsory insurance and substitutive insurance, the law or the supervisor should recommend statistical bases or general calculation principles.

54. The supervisor should in the individual case have the power to check the calculation and the technical provisions itself or charge another person to do so (e.g. an actuary), and to intervene if solvency of the insurance company is jeopardised.

Articles of incorporation

55. The articles of incorporation of the insurance company should be submitted to, or may be issued by, the supervisor and if necessary approved by it. The articles of incorporation can include a description of the individual classes of insurance that are to be offered, the investment principles and an indication as to whether insurance is to be written directly only or also indirectly.

56. The purpose of the examination of the articles of incorporation is to verify that the provisions under the supervision law and the company law are observed.

Actuaries and auditors

57. If companies are required to appoint an actuary with specific responsibilities, the supervisor should confirm.

- a. the qualifications, reliability and good repute of the person to be appointed. Insofar as a legal person is permitted to fulfill the duties concerned, information should be collected on its experience as well as on the qualification and reliability of the managers of this legal person.
- b. the position of this person in relation to the management of the insurance company: It should be sure that the actuary – irrespective of whether he is employed by the company or free-lance – has sufficient powers and independence to duly fulfill his role.

58. If the applicant is required to appoint an auditor before the licence can be granted (e.g. for the purpose of an initial audit) the supervisor should confirm that the requirements described in paragraph 57a above are met.

V. Licensing procedure

Application

59. The company should submit an application if it intends to operate insurance. This application should include information on the types of business to be written. The application should also contain all the documents and information required by the supervisor to confirm that the requirements mentioned under section IV above are met.

Examination procedure

60. Supervisors are encouraged to issue written guidelines on how to file an application for a licence. These guidelines could include the licensing requirements set out by legislation and advise on the required format of documents, projections, initial audits etc.

61. To make the formal licensing procedure easier and prevent any unnecessary delays, the supervisor may encourage persons proposing to establish an insurance company to get in touch informally before applying for the licence. In preliminary talks, the founders of the company could be advised on how to prepare the documents which should be submitted with the application.

62. In assessing the application documents, the supervisor could rely on audits by external bodies, actuarial reports, or – in the case of branches or foreign subsidiaries – on the opinion of other supervisors. However, where supervisors use external auditors or actuaries, they should consider:

- whether adequate controls over their competence exist, and the need to monitor their performance; and
- their independence towards the company and the consideration they give to the protection of the policy holders' interests.

Licence and registration in the register of commerce

63. Apart from applying for a supervisory licence, other requirements pertaining to trade and commercial law must in most cases be met (e.g. registration in the register of commerce). It depends on the jurisdiction if registration takes place before or after the licence is granted. However, companies should not be allowed to present themselves as licensed insurance companies without or before having been granted a licence.

Licensing body and supervisor

64. In some jurisdictions, not the supervisor, but a different body is responsible for granting licences (e.g. a ministry or a special council). If this is the case, the supervisor should have the authority to examine the documents submitted and give its opinion. If the supervisor's opinion is negative, the supervisor and the licensing body should agree before making a decision.

Duration of the licensing procedure

65. The supervisor should come to a decision as quickly as possible and not delay unduly. A certain period of time should be set from the date on which all licensing requirements are met. Within this period, the supervisor should decide on the application for a licence. However, if the supervisor has not come to a decision within this time, the licence cannot automatically be considered granted. The applicant company should have means at its disposal to obtain a decision within a reasonable time (e.g. by taking legal action).

Cooperation

66. The supervisor should be able to exchange information relevant for the application (e.g. check of suitability of directors and owners) with domestic or foreign authorities. However, the supervisor need not provide information where the information is not held confidential by the recipient.

VI. Withdrawal of licence

67. The supervisor should have at its disposal the remedial means of withdrawing the licence (possibly with respect to certain types of business). As a legal consequence of this withdrawal, the insurance company is no longer permitted to conclude new contracts, or prolong, or expand the cover of, existing contracts. Withdrawal of the licence should be possible under one of the following conditions:

- a. the company no longer meets the licensing requirements;
- b. the company seriously infringes the law in force,
- c. the company expressly renounces the licence;
- d. the company does not make use of the licence within a certain period of time, e.g. 12 months; or
- e. the company has ceased to operate, e.g. at least six months ago.

68. Cases stated in paragraph 67a and 67b above apply for instance to situations in which the insurance company is no longer able to meet capital adequacy standards, or management meeting the fit and proper requirements can no longer be found. They also refer to cases in which the insurance company constantly contravenes orders from the supervisor that have legal force, or if it constantly infringes provisions under the contract law or the consumer protection law. The licence may also be withdrawn where the company is subsequently found to have furnished false, misleading or inaccurate information, or has concealed, or failed to disclose, material facts in its application for a licence. Due to the severe consequences which a withdrawal of the licence has also for existing contracts, it should only be used as the last resort where less stringent means, e.g. admonitions or orders from the supervisor or court decisions, have proven ineffective.

69. In cases stated in paragraph 68c-e above, the withdrawal of the licence creates a clear legal situation and improves transparency of the insurance market. It should be avoided that insurance companies apply for licences “just in case” without actually having the clear intention of operating insurance business. If an insurance company has either not taken up operations within quite a long period of time (e.g. over one year) or ceased operations, there is a certain risk that legal provisions or market conditions will have changed.

ANNEX Extract from “Insurance Supervisory Principles”

Licensing

Companies wishing to underwrite insurance in the domestic insurance market should be licensed. Where the insurance supervisor has authority to grant a license, the supervisor:

1. in granting a license, should assess the suitability of owners, directors, and/or senior management, and the soundness of the business plan, which could include pro forma financial statements, a capital plan and projected solvency margins; and
2. in permitting access to the domestic market, may choose to rely on the work carried out by an insurance supervisor in another jurisdiction if the prudential rules of the two jurisdictions are broadly equivalent.

Changes in Control

The insurance supervisor should review changes in the control of companies that are licensed in the jurisdiction. The insurance supervisor should establish clear requirements to be met when a change in control occurs. These may be the same as, or similar to, the requirements which apply in granting a license. In particular, the insurance supervisor should:

1. require the purchaser or the licensed insurance company to provide notification of the change in control and/or seek approval of the proposed change; and
2. establish criteria to assess the appropriateness of the change, which could include the assessment of the suitability of the new owners as well as any new directors and senior managers, and the soundness of any new business plan.