OECD

Organisation for Economic Co-operation and Development

Publication sponsored by
the Japanese Government

INSURANCE AND PRIVATE PENSIONS COMPENDIUM FOR EMERGING ECONOMIES

Book 1
Part 1:1)a

TWENTY GUIDELINES FOR INSURANCE REGULATION AND SUPERVISION IN EMERGING ECONOMIES

Insurance Committee Secretariat

1997

This report is part of the OECD Insurance and Private Pensions Compendium, available on the OECD Web site at www.oecd.org/daf/insurance-pensions/ The Compendium brings together a wide range of policy issues, comparative surveys and reports on insurance and private pensions activities. Book 1 deals with insurance issues and Book 2 is devoted to Private Pensions. The Compendium seeks to facilitate an exchange of experience on market developments and promote "best practices" in the regulation and supervision of insurance and private pensions activities in emerging economies.
The views expressed in these documents do not necessarily reflect those of the OECD, or the governments of its Members or non-Member economies.

Insurance and Private Pensions Unit
Financial Affairs Division
Directorate for Financial, Fiscal and Enterprise Affairs

TWENTY INSURANCE GUIDELINES FOR INSURANCE REGULATION AND SUPERVISION IN EMERGING ECONOMIES

RULE N°1 Adequate prudential and regulatory provisions should be enforced in order to ensure the soundness of the insurance markets, the protection of the consumers and the stability of the economy as a whole. Over-regulation should be avoided. The insurance regulatory framework must be adapted to the characteristics of individual countries and encourage the stability, whilst maintaining the necessary flexibility to meet developments in the market.

RULE N°2 Sufficiently strict licensing criteria should govern the establishment of insurance companies. Among these criteria, the testing of the nature and adequacy of the financial resources of insurance companies, in particular through analysis of business plan and the requirement for a relevant minimum level of capital (taking account of inflation) deserves particular consideration. Other key requirements are related to the assessment of the ability of the company to meet legal, accounting and technical requirements and last but not least requirements for a competent management (fit and proper provisions).

RULE N°3 The underwriting of insurance risks should be restricted to insurance companies, which may transact insurance (and connected) operations only. Life and non-life activities should be separated (in distinct companies), so that one activity cannot be required to support the other. The distribution of insurance products by entities from other sectors may be authorised. Risks associated with the activities and structure of financial conglomerates should be adequately monitored.

RULE N°4 Establishment of foreign insurance companies should be based on prudential but non discriminatory rules. Liberalisation of cross-border operations, at least concerning reinsurance and international risks, should be encouraged.

RULE N°5 Adequate insurance contract laws should be established. Rules governing contractual rights and obligations as well as related sanctions, are essential for the protection of both contractual and third parties and indispensable for the development of legal stability. In the absence of contract laws, the approval of policy conditions by the supervisory authority may prove all the more necessary.

RULE N°6 Due to the crucial economic and social role of insurance in the development of an economy, consideration should be given to tax facilities in the life-insurance and pensions field in the economies in transition.

RULE N°7 The establishment of a supervisory body is essential. The supervisors should be professionally independent and properly trained and impartial. The supervisory body should have sufficient personnel and financial resources as well as adequate powers (including sanctions) to carry out its tasks.

RULE N°8 The examination of records and on site inspections of insurance companies are at the core of the work of the supervisor. An adequate reporting system is essential to achieve this task properly. The secrecy of information communication to and between supervisors should be safeguarded.

RULE N°9 Monitoring solvency margins and capital ratios constitutes a key element of dynamic supervision. But adequate tarification and prudent technical provisions backed by reliable and equivalent assets remain the fundamental requirements for maintaining solvency. Adequate business management and reinsurance activities are also indispensable to safeguard the soundness of the companies.

RULE N°10 Initially at least, it may be advisable for economies in transition to request the submission of premium rates and insurance products for prior approval. Supervision of tariffs and products should however be adapted to the particular situation of each country and reassessed at a later stage according to the development and progress of the market.

RULE N°11 Supervisory authorities should take adequate, effective and prompt measures to prevent insurance companies from defaulting, and to arrange an orderly run-off or the transfer of portfolio to a sound company. Appropriate winding-up procedures should be enforced. Under certain conditions, and particularly if the national market comprises a sufficient number of potential contributors with a broad spread of risks, the creation of a compensation fund could be considered.

RULE N°12 Standardised accounting rules are essential to ensure the transparency and comparability of the financial situation of insurance companies. Adequate insurance accounting rules and requirements for reporting and disclosure have to be set as a priority action. The compilation of statistical data regarding the frequency and severity of losses is an essential condition for computing tariffs and technical provisions accurately. Tariffs should be based on statistical data. Actuarial techniques are a key component of insurance management; the role of the actuarial profession could be encouraged.

RULE N°13 Investment regulation should ensure that both security and profitability requirements are respected. It should promote the diversification, spread and liquidity of investment portfolios as well as the maturity and currency matching of assets and liabilities, although some temporary dispensations to the last principle may be necessary. In any case, account should be taken of the country’s current economic environment. Regulations might include a list of admitted assets on which ceilings may be set and requirements on the way in which investments should be valued.

RULE N°14 Regulation should not restrict free access to international reinsurance markets. Compulsory cessions of risks to domestic/national reinsurers should therefore be avoided. The collection and monitoring of information relating to reinsurance companies should be established. International co-operation is particularly important to obtain accurate information and should be strengthened.

RULE N°15 Insurance intermediaries should be registered in order to ensure their compliance with selected criteria. Insurance intermediaries should possess appropriate qualifications and provide adequate information to policyholders including disclosure of limits to their independence such as significant ties with insurance companies. Insurance brokers should possess either financial guarantees or professional liability insurance.

RULE N°16 Compulsory insurance may be justified in respect of certain forms of social protection and might be considered in other areas where the risks covered are particularly serious, or where premium payments should be divided on an equitable basis among the policyholders group under consideration. Compulsory insurance is particularly recommended for automobile third party liability. Guarantee funds could be created to compensate victims when there is no insurance cover. Tariffs for compulsory insurance should also be based on statistical data. Adequate monitoring systems should be established. Compulsory insurance should not be restricted to former monopolies or State owned companies.

RULE N°17 Regulations should allow for fair competition within the insurance and reinsurance market. The process of dismantling monopolies and the privatisation of government owned insurance companies should be strongly encouraged.

RULE N°18 The activities of insurance companies in the pensions and health insurance field should be encouraged within an appropriate regulatory and supervisory framework. Regulations should endeavour to ensure fair treatment between all private companies operating in these areas.

RULE N°19 Governments should strengthen co-operation in order to exchange information on insurance regulation and supervision, facilitate the monitoring of the activities of foreign insurance and reinsurance companies and promote the development of sound, modern and open insurance markets.

RULE N°20 The insurance industry should be encouraged to set up its own business guidelines and to develop adequate training structures. Self-regulatory principles and organisations, including professional bodies, can complement usefully the public supervisory structure.