



**ISLE OF MAN
FINANCIAL SERVICES AUTHORITY**

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**INSURANCE REGULATIONS 2018
CP17-14/T15**

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This Consultation paper is issued by the Isle of Man Financial Services Authority (“Authority”) the regulatory authority responsible for the regulation and supervision of the financial services, insurance and pensions sectors in the Isle of Man.

What is it for?

In June 2013 the Authority published its ‘Roadmap for updating the Isle of Man’s regulatory framework for insurance business’ and through that document set out its objective to establish a project to implement a framework for the regulation and supervision of insurers, insurance managers and general insurance intermediaries that would establish a high level of observance in respect of the updated Insurance Core Principles issued by the International Association of Insurance Supervisors, and remain appropriate and proportionate to the risks of the different parts of the insurance industry that operate in and from the Isle of Man.

This continues to be the objective of the Authority.

Since 2013 the Roadmap has been updated annually and more recently every six months to reflect progress made.

An important element of the project to update the regulatory framework for insurance business is the development of a risk-based capital framework, which is initially being implemented for long-term insurers. This in turn creates the need for new reporting requirements and as a consequence an updating of the requirements of the Insurance Regulations 1986.

Who is affected by it?

The proposed Insurance Regulations 2018 will revoke the Insurance Regulations 1986 and the Insurance (Supplementary Information) Regulations 2016. They are therefore relevant to all authorised insurers and their auditors, although the new valuation and solvency regulations and associated reporting requirements initially apply only to long-term insurers.

The requirements in respect of reporting and indeed, most other requirements in the proposed regulations, will not change in substance for non long-term insurers. Reporting requirements have been transposed into the new regulations from the Insurance Regulations 1986 and the Insurance (Supplementary Information) Regulations 2016.

The paper may also be of more general interest to other parties with an interest in the Isle of Man insurance sector, including the legal profession.

The closing date for any comments on this consultation is 16 February 2018.

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GLOSSARY OF TERMS

Term	Meaning in this document
Act	Insurance Act 2008
Amendment Act	Insurance (Amendment) Act 2017
Authorised insurer	An insurer authorised under section 8 of the Insurance Act 2008 to carry on an insurance business.
Authority	The Isle of Man Financial Services Authority
CGC	Corporate Governance Code of Practice for Regulated Insurers
Home jurisdiction	The jurisdiction in which the insurer to which a permit has been granted is authorised to carry on an insurance business.
Home regulator	The regulator of the insurer to which a permit has been granted.
IPA	The former Insurance and Pensions Authority
IR86	Insurance Regulations 1986
IR2018	Draft Insurance Regulations 2018
IAIS	International Association of Insurance Supervisors
ICPs	Insurance Core Principles (of the IAIS)
ORSA	Own risk and solvency assessment
QIS	Quantitative Impact Study
Roadmap	Roadmap for updating the Isle of Man's regulatory framework for insurance business
Supplementaries	Insurance (Supplementary Information) Regulations 2016
Solvency Regulations 2018	Draft Insurance (Long-Term Business Valuation and Solvency) Regulations 2018
Valuation Regulations 2007	Insurance (Valuation of Long Term Liabilities) Regulations 2007

1. INTRODUCTION AND BACKGROUND

1. New solvency provisions in the Amendment Act and accompanying regulations will be brought into force for long-term insurance business on 30 June 2018. To support those new regulations new reporting regulations are also required.
2. Reporting requirements are currently set out in the IR86, the Supplementaries and, to a small extent, in the Valuation Regulations 2007. All those regulations will be repealed, and reporting requirements will be set out in the IR2018 and in the Solvency Regulations 2018.
3. New valuation solvency regulations will not be brought into force for non long-term insurance business before mid-2019. As such, existing requirements set out in the IR86 and the Supplementaries have been transposed into the IR2018 largely unchanged.
4. Most of the non-solvency related provisions introduced by the Amendment Act will also be brought into force on 30 June 2018 and those give rise to a small number of other changes in the IR2018.
5. In addition, a number of incidental changes have been made where necessary to reflect developments since the IR86 were made.
6. As indicated in paragraph 1 above, the focus of the IR2018 is to make changes which enable the new capital framework for long-term insurers to be implemented mid-2018. It is therefore anticipated that work will continue to refine those regulations and potentially to introduce additional reporting requirements with reference to the ICPs and Solvency II. Our current intention is to consult on those further refinements and changes at the same time as consulting on new reporting requirements for non-long term insurance business, towards the end of 2018.

2. PROPOSALS

7. The following paragraphs set out the key proposals in the IR2018. A cross reference to the IR86 and the Supplementaries is provided at Appendix I.

2.1 Reporting requirements for long-term insurance business

8. As is currently the case, information will be required to be submitted in reports to the Authority on a quarterly and annual basis. Timescales for submission are unchanged and are within three months of the quarter end for quarterly reports and at the same time as the audited financial statements are provided for annual reports. Consideration may be given to reviewing those timescales in due course.

9. Key changes from the existing framework are –

- the new solvency calculation (with which insurers are familiar through the QIS exercises) and which includes balance sheet information and statement of reserves;
- new analysis of change reports;
- updated revenue account format which replaces existing revenue reporting;
- new investment summary;
- updated format for the requirement to provide a three year projected revenue account;
- inclusion of information about an insurer's insurance obligations in Schedule 1 to the IR2018, previously requested in the Valuation Regulations 2007;
- amended Directors' and Auditor's certificates;
- removal of the Actuary's certificate;
- replacement of the requirement for an actuarial report to be prepared specifically for the Authority with a requirement for a copy of the actuary's report that is required under the Solvency Regulations 2018 to be provided to the Authority;
- removal of the Supplementary Information currently required by Part I of Schedule 6 to the Supplementaries which includes the business plan; and
- quarterly reporting requirements to be set out in regulation rather than guidance.

10. The following reports will be required on an annual basis in electronic form using forms published by the Authority. Draft templates are available with this paper on the consultation hub and, on implementation of these regulations and the Solvency Regulations 2018, final versions will be made available on the Authority's website.

- Solvency calculation using the following forms:
 - "RER_LT1_Form 6_Total" which collates the economic balance sheet, solvency capital requirement and minimum capital requirement valuation results of the insurer
 - "RER_LT1_SCR Forms 1 to 5" which separate the information provided above by line of business
- Analysis of change reports (summary report as well as analysis of changes in assets and technical provisions), revenue account(s), both actual for the reporting period and projected for 3 years, and investment summary using "RER_LT2_Supplementary - Form 1_".

11. In addition to the above, supplementary information will be required with the annual submission which will comprise information about an insurer's insurance obligations, a

Directors' and Auditor's Certificate and a copy of the actuarial report provided to the insurer's board. An actuarial certificate will no longer be required.

12. The following information is also required on a quarterly basis within three months of the quarter end using the published templates.

- Solvency calculation;
- Revenue account(s); and
- Investment summary.

13. A three year business plan in its current prescribed form will no longer be required, though as noted, revenue projections will be required to be submitted in electronic form. The requirement to submit a business plan to the Authority will largely be replaced by the ORSA which all insurers will be required to carry out once the updated CGC is implemented. The Authority's initial intention is not to include the requirement to submit an ORSA report to the Authority within regulation. However, the Authority expects review of the ORSA and supporting documentation to be an integral supervisory tool. Therefore the Authority will request the ORSA report and any other information it requires at an appropriate frequency. For long-term insurers it is expected that this will be at least on an annual basis and potentially more frequently if a firm's ORSA policy requires an updated ORSA due to trigger events.

14. The following paragraphs provide more detail on the content of each of the above reports except where the reporting content is set out in the Solvency Regulations 2018 in which case further explanation is provided with those regulations.

Analysis of change

15. Reports showing the analysis of change due to investments and liabilities and due to technical provisions are required as well as a consolidated analysis of change which will show changes in basic own funds during the reporting period, focussing on the variation in excess of assets over liabilities.

Revenue account

16. More granular reporting of revenue is required in the IR2018. This will apply to the total of long-term insurance business written and includes the following main cash flows:

- Premium income;
- Investment income;
- Unrealised and realised gains;
- Claims incurred;

- Expenses incurred; and
- Balance sheet reconciliations.

17. Individual revenue account reports are required for ring-fenced funds, however, insurers are asked to comment on the materiality of their ring-fenced funds to enable the Authority to assess the need for segregated reporting in this area.

18. In addition a projected three year revenue account will be required on an annual basis. It is expected that most other information about an insurer's business plan will be obtained through the review of the ORSA.

Investment summary

19. The investment summary report requires details of the assets held at the end of the reporting period, including the type of asset, the proportion held and the currency.

Disclosure of insurance obligations

20. A number of the disclosures previously required by regulation 26 of the Valuation Regulations 2007 will now be included in Part 1 of Schedule I to the IR2018.

Directors' Certificate

21. Some amendments are proposed to the Directors' Certificate to reflect the new capital framework. The Authority will continue to require Directors to confirm that the insurer has complied with the relevant legislation during the period but also asks them to certify the accuracy of the data provided in the regulatory returns required by these regulations and the ORSA report, should an ORSA report have been submitted during the reporting period.

Auditor's Certificate

22. Some amendments are proposed to the Auditor's Certificate to reflect the new capital framework. It is proposed that auditors are required to certify that annual reporting in respect of solvency, analysis of change and revenue has been properly prepared, and that it was reasonable for the Directors to have made the statements set out in the Directors' Certificate which certify the accuracy of the information contained in the regulatory reports.

Actuarial report

23. A regulatory actuarial report and certificate will no longer be required. Instead, a copy of the actuary's report provided to the insurer's board under regulation 7 of the Solvency Regulations 2018 will be required on an annual basis.

2.2 Reporting requirements for non-long-term insurance business

24. Existing requirements will continue to apply to non-long-term insurers which include the provision of regulatory financial statements, regulatory revenue accounts and funds, a regulatory profit and loss account, regulatory balance sheets, a reconciliation of shareholder funds, supplementary information, a solvency margin calculation, as well as a Directors' certificate and an Auditor's certificate. Where the Authority has previously agreed that all or part of the above regulatory returns are not required to be submitted, on the basis that the information is provided elsewhere in the financial statements, there is no change to that arrangement.
25. A small number of minor changes have been made to the above where required as a result of a new solvency framework being implemented for long-term insurers and for housekeeping purposes.

2.3 Application of regulations and the Act to permit-holders

26. As is the case with the IR86, the majority of requirements applicable to permit holders in the IR2018 do not apply to insurers that are authorised to carry on an insurance business in the United Kingdom or a member state of the European Union.
27. In respect of other permit holders from non-UK and non-European Union jurisdictions, the IR2018 set out the regulations and the sections of the Act that apply (in the same way as the IR86 do), with the default position being that those requirements apply as they do to authorised insurers.
28. However, modifications can be made to those regulations and sections of the Act by regulation, and the Amendment Act introduces a new regulation making power which enables the Authority to exercise a discretion in respect of any matter specified in regulations.
29. The Authority proposes using the powers referred to above to amend certain requirements to be more proportionate to the profile of permit holders and to take account of the requirements of the home jurisdiction. The proposed amendments are as follows and are initially in respect of long-term insurance business only:

30. Regulation 12(2)(b) enables the reports submitted to the home regulator to be accepted by the Authority as fulfilment of the requirements of regulation 14 (except for solvency reporting), provided the Authority considers the form and content of those reports to be sufficiently comparable to the requirements on the Island.
31. Regulation 12(2)(c) means that the Authority will accept a solvency report which is calculated in accordance with the legislation of the home jurisdiction as fulfilment of the requirement of regulation 14(1)(a). If the Authority does not consider the requirements of the home regulator to be comparable to those on the Island, it will require the insurer to perform the calculation using the rules that apply to authorised insurers.
32. Regulation 13 sets out the sections of the Act which apply to permit holders. It is proposed that the application of the notice required by section 29 should be limited to the controller, the most senior executive in the Isle of Man and head office personnel who have direct responsibility for, or who will be overseeing the work of, the permit holder.

2.4 Applications for authorisation, permits and registration

33. The IR86 prescribe application forms for authorisation, permits and registration. As the Amendment Act removes the requirement for such forms to be set out in regulation, the Authority proposes to remove those forms from regulation. Going forward, relevant forms and associated guidance will be published on the Authority's website.

2.5 Notification of Directors, Controllers, Chief Executives and Insurance Managers

34. The IR86 prescribe the form for the notification of the above roles. As the Amendment Act removes the requirement for the form to be set out in regulation, the Authority proposes to remove the form from regulation. Going forward relevant forms and associated guidance will be published on the Authority's website. This is consistent with the Authority's new proposed fitness and propriety assessment process which is currently being tested with selected regulated entities.

2.6 Registers

35. The information the Authority must hold on registers has been reviewed and minor updates have been proposed for consistency. In addition, the provisions in respect of registers have been updated to reflect an amendment to section 48 of the Act (also to

take effect on 30 June 2018) which states that the Authority shall also keep registers of *former* authorised insurers, permit holders and registered insurance managers.

2.7 Exempted insurance business

36. A small number of housekeeping changes have been made to the regulations in respect of exempted insurance business.

37. In addition, a condition has been attached to the exemption for insurers authorised in the United Kingdom or the European Union, with no fixed place of business in the Island, such that summary information must be provided to the Authority should they carry on business in or from the Island. The information required includes name, address, regulatory authorisation and the type and level of business to be undertaken and which has been undertaken during the previous year.

2. POTENTIAL FUTURE CHANGES

Additional reporting requirements

38. The ICPs and/or Solvency II require the reporting of a number of additional items such as the outsourcing of material functions or activities and intra-group transactions. These are likely to be the subject of a future consultation, probably at the same time as the new reporting requirements are extended to include non-long term insurers.

APPENDIX 1 – CROSS REFERENCE BETWEEN THE INSURANCE REGULATIONS 2018, THE INSURANCE REGULATIONS 1986 AND THE INSURANCE (SUPPLEMENTARY INFORMATION) REGULATIONS 2016

Regulation (IR2018)		Similar provision in the IR86		Similar provision in the Supplementaries		
1	Title	1(1)	Citation, commencement and application to permit holders	n/a	n/a	This is self explanatory.
2	Commencement	1(2) & 1(3)	Citation, commencement and application to permit holders	n/a	n/a	<p>This sets out the regulations which apply to permit holders; these have not changed except to reflect the fact that forms under section 29 are no longer in the regulations.</p> <p>As is the case with the IR86, the IR2018 do not apply to insurers that are authorised to carry on an insurance business in the United Kingdom or a member state of the European Union. However, the Amendment Act introduces a new regulation making power which enables the Authority to exercise a discretion in respect of any matter specified in regulations. The Authority proposes using this to enable the reports submitted to the home regulator to be accepted by the Authority. This would be subject to the Authority considering the form and content of those reports to be sufficiently</p>

Regulation (IR2018)		Similar provision in the IR86		Similar provision in the Supplementaries		
						comparable to the requirements on the Island. Specifically in respect of solvency reporting, the Authority proposes allowing permit holders to calculate their solvency position in accordance with the requirements of the home jurisdiction unless the Authority requires otherwise.
3	Interpretation	2	Interpretation	3	Interpretation	This is self explanatory
4	Definition of long-term business	3	Definition of "long term" business	n/a	n/a	No change.
5	Modification of Companies Act 1982	6	Modification of Companies Act 1982	n/a	n/a	A small number of changes have been made to this regulation as a consequence of the long term business fund being removed by the Amendment Act.
6	Statutory Reserve	12	Statutory Reserve	10(3)	n/a	This regulation has been updated to reflect the new capital framework which is being introduced for long term insurance business. There is no change for non long term business.
7	Restriction on issue or transfer of shares	14	Restriction on issue or transfer of shares	n/a	n/a	No change.
8	Continuation and discontinuation of certain insurers	15A	Continuation and discontinuation of certain insurers	n/a	n/a	This regulation has been updated to reflect existing legislation.

Regulation (IR2018)		Similar provision in the IR86		Similar provision in the Supplementaries		
9	Registers	17, 18 & 19	Register of Authorised insurers, Application for permits and Insurance Managers	n/a	n/a	<p>A review of register requirements has been carried out and the content of the registers has consequently been updated.</p> <p>The register for authorised insurers now includes the place of business on the Island if different to the registered office, the authorisation number and the status of the authorisation. The name of the auditor is no longer included.</p> <p>The register of permit holders has been expanded to include information on the date the permit was granted, details of any amendments to the register, any permission conditions, the name of the insurance manager (if appointed), the name of the senior person on the Island, the register number and the status of the permission.</p> <p>The register of insurance managers has been expanded to include the address of the registered office, the date of registration, the date and details of amendments to the register, the registration number and the status of the registration.</p> <p>A new paragraph 9(4) includes requirements for the keeping of registers of former regulated entities. This is a change made by the Insurance (Amendment) Act 2017</p>

Regulation (IR2018)		Similar provision in the IR86		Similar provision in the Supplementaries		
						and will come into effect also on 30 June 2018 by way of an Appointed Day Order.
10	Exempted insurance business	20	Exempted insurance business	n/a	n/a	Exemptions remain the same but have been updated to reflect existing legislation. In addition, in respect of exemption 10(1)(d) in the IR2018, which exempts insurers authorised in the United Kingdom or European Union if they have no fixed place of business on the Island, conditions are imposed such that the insurer must provide details about itself and its business to the Authority which are maintained on a register of exempt persons held by the Authority.
11	Indemnity insurance for the auditors of authorised insurers	21	Indemnity insurance for the auditors of authorised insurers	n/a	n/a	No change
12	Application of these Regulations to permit holders	1(2) & (3)	Citation, commencement and application to permit holders	n/a	n/a	This sets out the regulations that apply to permit holders; these have been updated to enable the Authority to exercise discretion in respect of reporting submitted to it.
13	Application of Act to permit holders	15	Application of Act to permit holders	n/a	n/a	This sets out the provisions in the Act which apply to permit holders; these have not changed but have been updated to reflect current legislation.

Regulation (IR2018)		Similar provision in the IR86		Similar provision in the Supplementaries		
						The application of section 29 of the Act to permit holders has been reviewed and limited to the controller, most senior executive in the Isle of Man and head office personnel with direct responsibility for Isle of Man by 5(3).
14	Reporting requirements for insurers authorised to carry on long-term business					
14(1)(a)	Solvency reporting	13	Solvency margins	n/a	n/a	This includes the solvency calculation in accordance with the new framework, balance sheet information and the statement of reserves.
14(1)(b)(i)	Analysis of Change	n/a	n/a	n/a	n/a	New report.
14(1)(b)(ii)	Revenue account	n/a	n/a	6	Regulatory revenue account and funds	New report.
14(1)(b)(iii)	Investment summary	n/a	n/a	n/a	n/a	New report.
14(1)(b)(iv)	3 year projected revenue account.	n/a	n/a	4(3) & Schedule 5, Part I	Supplementary information	A 3 year business plan is no longer required except for revenue account projections.

Regulation (IR2018)		Similar provision in the IR86		Similar provision in the Supplementaries		
14(1)(c)	Other forms	n/a	n/a	n/a	n/a	This enables to Authority to request information in other forms as published.
14(2)(a)	Insurance obligations disclosures	n/a	n/a	n/a	n/a	This information is currently required by regulation 26 of the Valuations Regulations 2007.
14(2)(b)	Directors' Certificate	n/a	n/a	4(4) & Schedule 5, Part II	Supplementary information	This has been updated to reflect the new reporting requirements.
14(2)(c)	Auditor's report	n/a	n/a	4(6) & Schedule 5, Part IV	Supplementary information	This has been updated to reflect the new reporting requirements.
14(2)(d)	Actuarial report	n/a	n/a	4(5) & Schedule 5, Part III	Supplementary information	There is no longer a requirement to provide an actuarial report containing specific detail to the Authority. However, the Authority will require on an annual basis a copy of the actuarial report provided to the insurer's board. An actuary's certificate is also no longer required.
14(3)	Reporting timescales	n/a	n/a	4(1)	Supplementary information	Timescales for the submission of annual reports have not changed.
14(4)	Quarterly reporting	n/a	n/a	n/a	n/a	Quarterly reporting is currently in the Guidance Notes for Insurance Business. It is proposed to include a limited amount of quarterly reporting in regulation (in respect of solvency, revenue and investments).
15	Supplementary information – non long-term business	n/a	n/a	4	Supplementary Information	No change

Regulation (IR2018)		Similar provision in the IR86		Similar provision in the Supplementaries		
16	Regulatory financial statements – non long-term business	n/a	n/a	5	Regulatory financial statements	No change
17	Regulatory revenue account and funds – non long-term business	n/a	n/a	6	Regulatory revenue account and funds	No change
18	Regulatory profit and loss account – non long-term business	n/a	n/a	7	Regulatory profit and loss account	No change
19	Regulatory balance sheet(s) – non long-term business	n/a	n/a	8	Regulatory balance sheet(s)	No change
20	Reconciliation of shareholder funds – non long-term business	n/a	n/a	9	Reconciliation of shareholder funds	No change
21	Solvency margins – non long-term business	13	Solvency margin	4 (3) & Schedule 5, Part I, para 6	Solvency margin	This has been updated only where necessary on account of changes being implemented for long term insurance.

Regulation (IR2018)	Similar provision in the IR86	Similar provision in the Supplementaries	
<i>Regulations in the IR86 which are no longer required</i>			
Applications for authorisation	4	Applications for authorisation	n/a n/a The IR86 prescribe the application form for authorisation. As the Amendment Act removes the requirement for such forms to be set out in regulation the IR2018 no longer includes this form.
Applications for permits	18	Applications for permits	n/a n/a The IR86 prescribe the application form for permits. As the Amendment Act removes the requirement for such forms to be set out in regulation the IR2018 no longer includes this form. The IR86 also includes in this regulation the content of the register of permits to be maintained by the Authority. Regulations concerning registers for all authorised insurers, permit holders and insurance managers are now within Regulation 9.
Applications for registration as an insurance manager	19	Insurance managers	n/a n/a The IR86 prescribe the application form for insurance managers. As the Amendment Act removes the requirement for such forms to be set out in regulation the IR2018 no longer includes this form. The IR86 also includes in this regulation the content of the register of insurance managers to be maintained by the Authority. Regulations concerning registers for all authorised insurers, permit holders and insurance managers are now within Regulation 9.

Regulation (IR2018)		Similar provision in the IR86		Similar provision in the Supplementaries		
	Connected persons	5	Directors, Controllers, Chief Executives and Insurance Manager	n/a	n/a	The IR86 prescribe forms for the notification of the roles of Directors, Controllers, Chief Executives and Insurance Managers. As the Amendment Act removes the requirement for such forms to be set out in regulation the IR2018 does not include this form. Regulation 5 of the IR86 will be revoked before these regulations come into force as part of the implementation of the new fitness and propriety assessment process referred to in paragraph 34.

APPENDIX 2 – DRAFT INSURANCE REGULATIONS 2018