



**ISLE OF MAN
FINANCIAL SERVICES AUTHORITY**

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Consultation Paper
**Insurance (Long-Term Business Valuation and
Solvency) Regulations 2021**

CP21-01

Issue Date: 1 February 2021

Closing Date: 1 March 2021

Consultation Paper – CP21-01

This Consultation Paper is issued by the Isle of Man Financial Services Authority, which is the regulatory body for financial services in the Isle of Man.

The purpose of the consultation is to obtain views in relation to the proposed replacement of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2018 with the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021 which includes amendments to the regulations to reflect changes brought in by the Insurance Regulations 2021 and for consistency with the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021. The consultation is relevant to all insurers authorised to provide long-term insurance. It may also be of more general relevance to other parties with an interest in the Isle of Man insurance sector, including the legal profession.

The closing date for comments is **1 March 2021**.

Please send comments in writing and preferably by email to:

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The information you send may be published in full or in a summary of responses. All information in responses, including personal data, may be subject to publication or disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2015 and the Data Protection Act 2018). If you want your response to remain confidential, you should explain why confidentiality is necessary. Your request will be acceded to only if it is appropriate in the circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding. The Authority is registered with the Information Commissioner as a data controller under Isle of Man data protection legislation. It collects and processes personal data to carry out its functions under relevant legislation and may share personal data with other parties where there is a legal basis for doing so. Further information on how the Authority collects and processes personal data can be found in the Privacy Policy on the Authority's website: <https://www.iomfsa.im/terms-conditions/privacy-policy/>.

If you have a query in relation to how this consultation has been carried out, please contact the ICP Project Team Authority's Policy and Authorisations Division by email at info@iomfsa.im or by telephone on +44 (0) 1624 646000.

Contents

Glossary.....	4
1. Executive Summary.....	5
1.1 Overview	5
1.2 What is the purpose of this Consultation Paper?	5
1.3 Who may be affected by this Consultation Paper?	5
2. Consultation Process.....	5
2.1 The Authority’s regulatory objectives.....	5
2.2 Responding to the Consultation Paper	6
3. Proposed Amendments	7
3.1 Amendments to reflect the Insurance Regulations 2021	7
3.2 Amendments for consistency with the Insurance (Non Long-Term Valuation and Solvency) Regulations 2021	7
3.3 Amendments to insurance policy	8
3.4 PCCs and ICCs	8
4. Impact Assessment	9
5. Questions	9
6. Next Steps	9

Glossary

Authorised long term business insurer	An insurer authorised under section 8 of the Insurance Act 2008 to carry on class 1 and 2 insurance business
Authority	Isle of Man Financial Services Authority
Cell	Cellular part of a PCC
Core	Non-cellular part of a PCC
IC	Incorporated Cell of an ICC
ICC	Incorporated Cell Company
IAIS	International Association of Insurance Supervisors
ICPs	Insurance Core Principles (of the IAIS)
MCR	Minimum Capital Requirement
PCC	Protected Cell Company
QIS	Quantitative Impact Study
SCR	Solvency Capital Requirement

1. Executive Summary

1.1 Overview

The Insurance (Long-Term Business Valuation and Solvency) Regulations 2018 (“the Regulations”) came into effect on 30 June 2018.

The regulations formed part of the ICP project with the objective of implementing 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 and revised Insurance Core Principles issued by the International Association of Insurance Supervisors, whilst remaining appropriate and proportionate to the risks of the different parts of the insurance industry that operate in and from the Isle of Man.

As a further part of this project the Authority has recently consulted on the Insurance Regulations 2021 which will replace the Insurance Regulations 2018, and the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021 which will bring in the new risk based framework for non long-term business insurers.

1.2 What is the purpose of this Consultation Paper?

The purpose of this consultation is seek views on the proposed update of the Insurance (Long-Term Business Valuation and Solvency) Regulations 2018 to reflect the provisions of the proposed Insurance Regulations 2021 and for consistency with the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2021, as well as to expand the requirements to cover Protected Cell Companies and Incorporated Cell Companies.

For clarity this review does not include any revisions in respect of EIOPA’s Solvency II 2020 review or in respect of any proposed changes by the PRA to the UK’s regulatory regime following its withdrawal from the European Union.

1.3 Who may be affected by this Consultation Paper?

This consultation is relevant to all authorised long-term business insurers. It may also be of more general relevance to other parties with an interest in the Isle of Man insurance sector, including the legal profession.

2. Consultation Process

2.1 The Authority’s regulatory objectives

The Authority’s regulatory objectives are set out in section 2(2) of the FSA08 as —

- securing an appropriate degree of protection for policyholders, members of retirement benefits schemes and the customers of persons carrying on a regulated activity;

- the reduction of financial crime; and
- the maintenance of confidence in the Island's financial services, insurance and pensions industries through effective regulation, thereby supporting the Island's economy and its development as an international financial centre.

The Authority is required to give consideration to certain factors when discharging its functions in accordance with paragraph 3 of Schedule 1 to the FSA08. The most relevant factors for this consultation are considered as follows:

Factor	Information
The desirability of implementing and applying recognised international standards.	The primary purpose of the ICP Project was to update the Island's insurance regulatory framework in a manner that is appropriate to the Island's insurance sector and consistent with international standards. The Code was one aspect of this.
The international character of the financial services, insurance and pensions industries and their markets and the desirability of maintaining the competitive position of the Island.	The update to the Island's insurance regulatory framework is part of the Island maintaining its position as a reputable and responsible international financial centre.

2.2 Responding to the Consultation Paper

Open dialogue with stakeholders is an essential element for successful development of the Authority's proposals and constructive feedback will help the Authority reach an informed decision on the content of the proposals and manner of implementation.

As responses to the consultation may be subject to publication or disclosure in accordance with access to information regimes, respondents should state if they wish their response to remain confidential and, if so, the reasons for this.

Submissions received by the closing date of the consultation will be considered but may not necessarily result in a change to the proposals following a review of all responses received.

Professional bodies, trade associations and other representative groups are asked to provide a summary of the people and organisations that they represent when responding to a consultation as well as the methodology used to gain members' input.

The Authority requests that submissions are not made anonymously as they will not be considered or included in the Consultation Response.

This Consultation Paper has been published on the Authority's website and the Isle of Man Government's Consultation Hub¹. A list of specific representative groups to which this Consultation Paper has been sent is shown in Appendix A.

3. Proposed Amendments

3.1 Amendments to reflect the Insurance Regulations 2021

The following amendments have been made as a result of the proposed Insurance Regulations 2021:

- references to the Insurance Regulations 2018 have been replaced with references to the Insurance Regulations 2021;
- the definition of approved supervisor has been replaced by reference to the definition in the Insurance Regulations 2021 (the intent of the definition remains unchanged);
- Regulation 9, 'Valuation Methodology' has been renamed 'use of relevant accounting standards' and now refers to the accounting standards allowed under the Insurance Regulations 2021;
- Schedule 1 'Capital Requirements for Dormant Insurers' has been deleted with the definition of a dormant insurer now falling within the Insurance Regulations 2021, and the SCR and MCR requirements for dormant insurers being included within Parts 4 - Solvency Capital Requirement and Parts 5 - Minimum Capital requirement respectively.

3.2 Amendments for consistency with the Insurance (Non Long-Term Valuation and Solvency) Regulations 2021

The majority of the changes have been made to ensure consistency between the Insurance (Non Long-Term Valuation and Solvency) Regulations 2021 and the Regulations, where appropriate. In particular the intention of the changes is that where the same concepts and terminology exist in both sets of regulations, they are defined and communicated consistently.

The majority of the changes can be found in Part 2 - Valuation of Assets and Liabilities other than Technical Provisions and Part 3 - Technical Provisions. These Parts have been simplified and reorganised to reduce the number of regulations, whilst retaining the intent of the insurance policy.

For clarity, whilst these sections may look different the intention was to maintain the meaning of the original content and as such the methods used to determine an insurers assets, liabilities and technical provisions remains unchanged from the 2018 Regulations.

¹ <https://consult.gov.im/>

3.3 Amendments to insurance policy

The following policy changes have been made:

- The spread risk module and the market concentration risk module have been revised to include the United Kingdom and the Bank of England in the list of jurisdictions and central banks that are eligible to use a stress factor of zero. This change was required due to the UK's withdrawal from the European Union.
- In the currency risk module, following requests from insurers:
 - the Foreign Currency Group Tables have been updated to include Bahraini Dinars, UAE Dirhams, Qatari Riyal's and Argentine Pesos; and
 - the ability to switch the base currency for a foreign currency in regulation 48(11) 'currency risk capital requirement' has been extended to regulation 48 'currency risk capital requirement optional simplification' subject to the same requirements being met.
- The mass lapse risk capital requirement module has been amended to require an insurer to reflect the adjustments after the mass lapse event that the insurer would have to make to the expense component of the cash flow projection in the calculation of its best estimate. This change is as a result of advice published by EIOPA.
- The expense risk module has been amended to clarify that investment management expenses should not be stressed. This change is as a result of advice published by EIOPA.

3.4 PCCs and ICCs

Whilst there are currently no PCCs or ICCs authorised to carry out long-term business on the Island, the Authority believes it is appropriate to have valuation and solvency requirements in place for PCCs and ICCs should one be authorised in future.

Under the Insurance Regulations 2021, the cell and core of a PCC, an IC and an ICC are all independently authorised to carry out long-term insurance business (albeit the Core of a PCC and an IC can be authorised as 'supporting' which means they are not authorised to carry out insurance business).

The proposed regulations follow on from this by confirming that for valuation and solvency purposes the cells and core of a PCC, an IC and an ICC are all treated as standalone insurers and as such the valuation and solvency requirements (including SCR and MCR) apply accordingly.

Part 7, Own-funds has been updated to amend the determination of an insurer's own-funds for PCC whose cells have secondary liability to the assets of the core.

Finally it is proposed that the absolute floor of the MCR in Part 6 - Minimum Capital Requirements remains at £3 million for the cells and core of a PCC, an IC and an ICC.

4. Impact Assessment

These changes are to ensure consistency with the proposed Insurance Regulations 2021 and the proposed Insurance (Non Long-Term Business Valuation and Solvency Regulations) 2021. Both these sets of regulations have been consulted on and feedback considered.

The changes relate to drafting and formatting, with the exception being the treatment of PCCs and ICCs.

The treatment of PCCs and ICCs mirrors the approach agreed in the Insurance (Non Long-Term Business Valuation and Solvency Regulations) 2021.

5. Questions

The Authority invites general feedback on the proposals set out in this consultation paper.

6. Next Steps

Following closure of the consultation period, the Authority will review the responses received and publish a Consultation Response document on the Authority's website and the Isle of Man Government's Consultation Hub.

Subject to those responses, the Authority will proceed to make the Insurance (Long-Term Business Valuation and Solvency) Regulations 2021 for implementation on 30 June 2021.