BANK FOR INTERNATIONAL SETTLEMENTS

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Insurance Core Principles – Executive Summary

The Insurance Core Principles (ICPs) provide a globally accepted framework of principles, standards and guidance for the regulation and supervision of the insurance sector. They were developed by the International Association of Insurance Supervisors (IAIS) and apply to its member jurisdictions regardless of the level of development and sophistication of their insurance markets and the type of insurance products or services supervised. Initially adopted in 2011 and amended four times (the most recent amendments coming in 2019) the ICPs contain 24 principles.[1]

Insurance supervisors use the ICPs as a benchmark to assess the quality of their regulatory and supervisory frameworks and to help inform future work priorities. They are also used by the International Monetary Fund and the World Bank as part of their Financial Sector Assessment Program to evaluate the effectiveness of countries' systems of insurance supervision. This Executive Summary outlines the preconditions needed for effective supervision, and the structure and scope of the ICPs that are deemed essential to support a sound supervisory system.

Preconditions for effective insurance supervision

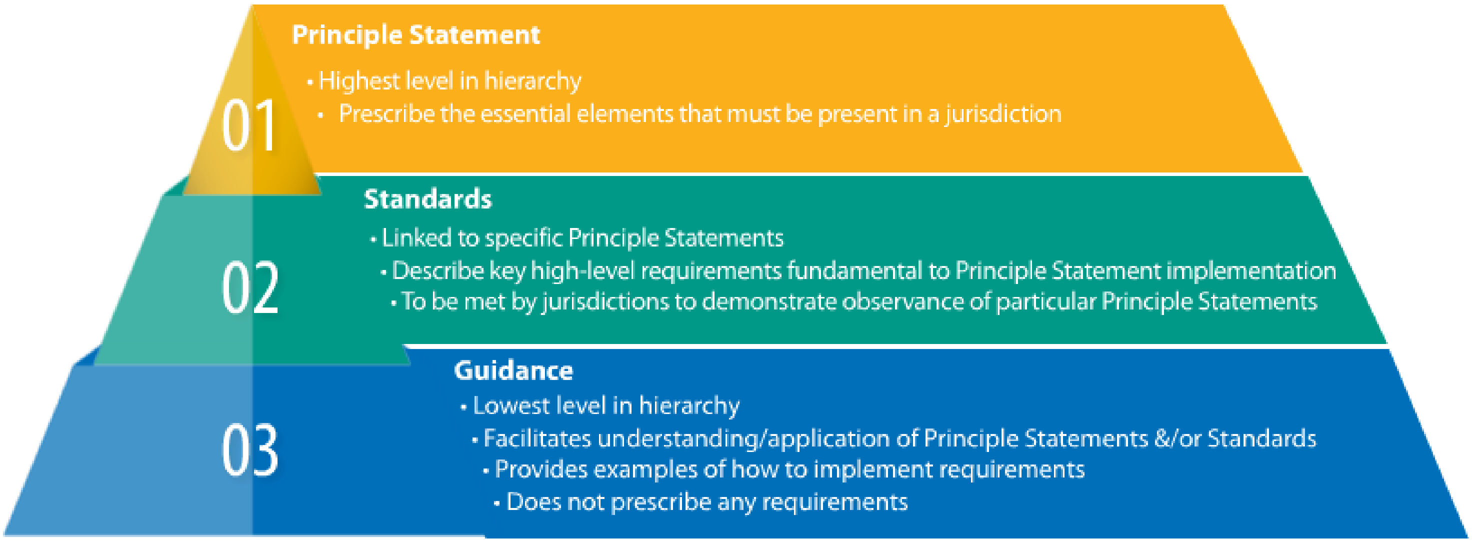
The ICPs identify five preconditions that can have a bearing on the conduct of supervision. While these preconditions are generally outside the control of supervisory authorities, supervisors should work with the government and applicable organisations to address any identified concerns.

Preconditions	Implications for supervision
Sound and sustainable macroeconomic and financial sector policies	Without sound macroeconomic (mainly fiscal and monetary) policies, imbalances may arise and affect the stability of the financial system.
A well developed public infrastructure	If the public infrastructure is not well developed, it can contribute to the weakening of financial systems. For example, if the external audit profession is not independent, it can have a bearing on the integrity of insurers' published financial statements.
Effective market discipline	Market participants' assessments of an insurer's risk profile supplement the work of prudential supervisors. Effective market discipline depends on the timely, accurate and meaningful flow of information to market participants.
Mechanisms for providing an appropriate level of protection	Effective mechanisms that protect the interests of consumers help to increase confidence in the financial system.
Efficient financial markets	Market inefficiencies, such as a lack of long-term duration assets or erroneously priced assets, may lead to ineffective assessments of financial and risk positions by institutional investors, such as insurers.

[1] Even though the numbering of the ICPs ends at ICP 25, there are currently 24 principles. This is because the former ICP 11 – Enforcement was merged with ICP 10 – Preventive and Corrective Measures and Sanctions, and to avoid confusion, the IAIS decided not to change the existing numbering of the other ICPs.

ICP structure and scope

Each ICP consists of a Principle Statement, Standards and Guidance. The following diagram shows the ICP hierarchy:



The ICPs cover five key areas of insurance supervision.

1. Supervisory powers, responsibilities and independence

ICP	Principle
1 – Objectives, Powers and Responsibilities	Primary legislation clearly defines the authority(ies) responsible for insurance supervision, its powers and the objectives of supervision.
2 – Supervision	The supervisor is operationally independent, accountable and transparent in the exercise of its responsibilities and powers and has adequate resources to discharge its responsibilities.
3 – Information Sharing and Confidentiality Requirements	The supervisor obtains information from, and shares information with, other relevant supervisors and authorities subject to confidentiality, purpose and use requirements.
25 – Cooperation and Coordination	The supervisor cooperates and coordinates with involved supervisors and relevant authorities to ensure effective supervision of insurers operating on a cross-border basis.

2. Supervisory issues: licensing and techniques

ICP	Principle
4 – Licensing	A legal entity that intends to engage in insurance activities must be licensed before it can operate within a jurisdiction.
9 – Supervisory Review and Reporting	The supervisor obtains the necessary information and uses off-site monitoring and on-site inspections to conduct effective supervision of insurers and evaluate the insurance market.
10 – Preventive and Corrective Measures and Sanctions	The supervisor requires and enforces preventive and corrective measures and imposes sanctions in a timely manner and based on clear and publicly disclosed general criteria.
12 – Exit from the Market and Resolution	Legislation provides requirements for the voluntary exit of insurers from the market and the resolution of insurers that are no longer viable, or are likely to be no longer viable, and have no reasonable prospect of returning to viability.
23 – Group-wide Supervisor	The group-wide supervisor, in cooperation and coordination with other involved supervisors, identifies the insurance group and determines the scope of group supervision.
24 – Macroprudential Supervision	The supervisor identifies, monitors and analyses market and financial developments and other environmental factors that may impact insurers and the insurance sector and uses this information to identify vulnerabilities and address, where necessary, the build-up and transmission of systemic risk at the individual insurer and at the sector-wide level.

3. Qualitative requirements: governance and risk management

ICP	Principle
5 – Suitability of Persons	The supervisor requires board members, senior management, key persons in control functions and significant owners of an insurer to be and remain suitable to fulfil their respective roles.
6 – Changes in Control and Portfolio Transfers	The supervisor assesses and decides on proposals: • to acquire significant ownership of, or an interest in, an insurer that results in a person (legal or natural), directly or indirectly, alone or with an associate, exercising control over the insurer • for portfolio transfers
7 – Corporate Governance	The supervisor requires insurers to establish and implement a corporate governance framework that provides for sound and prudent management and oversight of the insurer's business and adequately recognises and protects the interests of policyholders.
8 – Risk Management and Internal Controls	The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters and internal audit.
13 – Reinsurance and Other Forms of Risk Transfer	The supervisor requires the insurer to manage its use of reinsurance and other forms of risk transfer effectively. The supervisor takes into account the nature of reinsurance business when supervising reinsurers based in its jurisdiction.
15 – Investments	The supervisor establishes regulatory investment requirements for solvency purposes in order for insurers to make appropriate investments while taking account of the risks they face.
16 – Enterprise Risk Management for Solvency Purposes	The supervisor requires the insurer to establish within its risk management system an enterprise risk management framework for solvency purposes to identify, measure, report and manage the insurer's risks in an ongoing and integrated manner.
22 – Anti-Money Laundering and Combating the Financing of Terrorism	The supervisor requires insurers and intermediaries to take effective measures to combat money laundering and terrorist financing.

4. Quantitative requirements: capital and valuation

ICP	Principle
14 – Valuation	The supervisor establishes requirements for the valuation of assets and liabilities for solvency purposes.
17 – Capital Adequacy	The supervisor establishes capital adequacy requirements for solvency purposes so that insurers can absorb significant unforeseen losses and to provide for degrees of supervisory intervention.

5. Market conduct issues and supervision of insurance intermediaries

ICP	Principle
18 – Intermediaries	The supervisor sets and enforces requirements for the conduct of insurance intermediaries in order that they conduct business in a professional and transparent manner.
19 – Conduct of Business	The supervisor requires that insurers and intermediaries, in their conduct of insurance business, treat customers fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.
20 – Public Disclosure	The supervisor requires insurers to disclose relevant and comprehensive information on a timely basis to give policyholders and market participants a clear view of their business activities, risks, performance and financial position.
21 – Countering Fraud in Insurance	The supervisor requires that insurers and intermediaries take effective measures to deter, prevent, detect, report and remedy fraud in insurance.

This Executive Summary and related tutorials are also available in FSI Connect, the online learning tool of the Bank for International Settlements.