

# **Framework for Supervisory Colleges for Regulated Entities**

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## A. DEFINITIONS

For the purposes of this Document:

**Regulated Entity** means any of the following:

1. Insurance Legal Entity which means a legal entity, which includes its local and foreign branches, that is licensed to conduct insurance, regulated and subject to supervision or;
2. Insurance Group which means two or more legal entities, at least one of which is an insurance legal entity, where one has control over one or more insurance legal entities and possibly other non-regulated legal entities, and whose primary business is insurance.

**Supervisory College** means a forum for cooperation and communication between the involved supervisors established for the fundamental purpose of facilitating the effectiveness of supervision of regulated entities.

## B. INTRODUCTION AND OBJECTIVE

1. Enhanced cooperation between supervisory authorities at the regional level is key to strengthening the effectiveness of supervision of the Regulated Entities . In this regard, supervisory colleges provide a platform for:
  - (i) enhanced information sharing by the gathering and dissemination of relevant or essential information in going concern and emergency situations;
  - (ii) developing a common understanding of the risk profile of the Regulated Entity;
  - (iii) achieving coordination of supervisory review and risk assessment at a group level by promoting a shared agenda for addressing risks and vulnerabilities; and
  - (iv) establishing supervisory plans for the mitigation of risks by communicating key supervisory messages among college members on an on-going and confidential basis.
2. This document seeks to assist in developing a consistent and effective framework for supervisory colleges held by insurance regulators in the Caribbean.

### C. CRITERIA FOR THE ESTABLISHMENT OF A SUPERVISORY COLLEGE

Key Objective: *Assist members in developing a better understanding of the risk profile and vulnerabilities of the regulated entities.*

3. Supervisory colleges must be convened to facilitate monitoring of Regulated Entities that meet any two (2) of the following criteria:
  - (i) the Regulated Entity has cross-border operations where in any jurisdiction, any of the operations is identified as a significantly important financial institution ;
  - (ii) premiums are written in not fewer than three (3) jurisdictions;
  - (iii) percentage of gross premiums written outside the home jurisdiction is not less than 10% of the Regulated Entity's total gross written premium;
  - (iv) percentage of gross premiums written represents a significant portion of market share (> 10%) in the host country; and
  - (v) total assets of not less than USD 20 million (based on a rolling three-year average).
4. Notwithstanding the criteria above, there is need for flexibility in the consideration of whether to establish a supervisory college. Accordingly, a college may also be convened based on the recommendation of a **host supervisor**. In this case, justification must be provided to the Home Supervisor, in writing, outlining why:
  - (i) a college is necessary to improve the effectiveness and efficiency of supervision of the Regulated Entity. This may include activities in the host country that represent a material risk to the Regulated Entity.
5. Supervisory colleges for Regulated Entities identified in any jurisdiction as significantly important financial institutions must be held at least once every 3 years. However, additional meetings may be scheduled as necessary if the Regulated Entity faces a crisis situation or if upcoming and substantial changes to the Regulated Entity demand that involved supervisors coordinate more closely and respond quickly.
6. Colleges **may** be arranged with the assistance of the Secretariat of the Caribbean Association of Insurance Regulators (CAIR) to be held around the time of the Annual CAIR Conference to facilitate efficiency and active participation by the members. However, **the responsibility for establishment and successful running of the college rests with the Home Supervisor.**

### D. IDENTIFICATION OF THE HOME SUPERVISOR

7. The Home Supervisor would be determined based on the location of the Regulated Entity's head office, given that this is where the board and senior management of the Regulated Entity is most likely to meet, and provide ready access of the Home Supervisor to the Regulated Entity's board and senior management.

8. Where the registered head office is not the operational head of the Regulated Entity, the Home Supervisor would be determined based on the location where:
  - (i) the main business activities of Regulated Entity are undertaken; and/or
  - (ii) the main business decisions are taken; and/or
  - (iii) the main risks are underwritten; and/or
  - (iv) the Regulated Entity group has its largest operations based on balance sheet total.

## **E. ROLE OF THE HOME SUPERVISOR**

9. The overall responsibility for initiating the establishment and successful running of a college rests with the Home Supervisor.
10. The Home Supervisor must act as the chair or key coordinator of the supervisory college and should take responsibility for coordinating the agenda and action plans and initiating discussions on suitable coordination arrangements.
11. A key step towards establishment of a supervisory college is gaining an overview of the Regulated Entity, the other entities within it and their business on a solo and on a group level. The Home Supervisor must gather, with the help of involved supervisors of the Regulated Entity, all information necessary to gain a comprehensive overview of the Regulated Entity, its other entities and its activities.
12. The tasks of the Home Supervisor with respect to the supervisory college include inter alia:
  - (i) clarifying the membership/participation of involved supervisors in the supervisory college;
  - (ii) ensuring Non-Disclosure Agreements (Appendix II) are duly signed by the relevant participating supervisory authority or invited body and collected 30 calendar days prior to the College;
  - (iii) coordinating the ongoing activities of the supervisory college, including planning meetings, supervisory activities, processes of information exchange;
  - (iv) recording meeting summaries and action points; and
  - (v) proposing and circulating the agenda for supervisory college meetings; this would include incorporating the views and opinions of other members.
13. The Home Supervisor must institute advance registration and sign in sheets and other measures to ensure that only authorized representatives of authorized regulatory bodies are present at the meeting.

Recommendation

## F. PARTICIPATION IN COLLEGE

14. Participation in the supervisory college would be determined based on the structure, organisation and the activities of the Regulated Entity, and the jurisdictions involved in its supervision.
15. Membership of a supervisory college may comprise representatives of each of the supervisors responsible for the day-to-day supervision of the Regulated Entity. A mapping of the operations of the Regulated Entity<sup>1</sup> must be completed by the Home Supervisor to identify the supervisors that should be involved in the work of the supervisory college and other relevant bodies and authorities.
16. Generally, attendees would comprise:
  - (i) regulators involved in the supervision of the Regulated Entity;
  - (ii) regulators from other sectors, such as banking, where the Regulated Entity is a member of a conglomerate with significant interests in another financial sector. In this case, clear criteria should be established for participation. These criteria include:
    - the relative size and/or materiality of the entities relative to the Regulated Entity as a whole;
    - the relative size or materiality of the entity relative to its local market;
    - the level of risk in a particular entity; and
    - the role of the supervisory college and its relevance to the particular entity.
17. The main approach should be inclusive, meaning that all jurisdictions where the financial entities operate are allowed to participate in the colleges and access to information is not restricted.
18. Participation by supervisors from jurisdictions where the Regulated Entity is not located should be allowed **on a case by case basis**. A formal request should be made by the supervisory authority to the Home Supervisor outlining the reasons for the request for inclusion to the supervisory college. The Home Supervisor should advise the other college members of the request soliciting their views. Once there is no objection, a letter of approval should be forwarded to the requesting supervisor from the Home Supervisor outlining any conditions surrounding their participation.
19. Where appropriate, persons from international standard-setting organizations may be invited to participate in the college, subject to stipulated confidentiality requirements.
20. All Participants in the College are required to sign the Non-Disclosure Agreement set out in Appendix II.

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<sup>1</sup> Refers to a group organization chart or table showing all subsidiaries and affiliates, percentage shareholding, ultimate parent etc.

21. In order to facilitate the identification of early warning signs, potential risks and vulnerabilities for the Regulated Entity and for the system in which they operate, college members are required to submit completed Risk Assessment Sheets to the Home Regulator at least twenty-one (21) calendar days prior to the college meeting. The Home regulator is responsible for examining each submission with a view to determining whether there are any key issues or concerns which should be discussed at the college. The Risk Assessment Sheets must be circulated to the participating supervisory authorities at least seven (7) days prior to the meeting.

#### **G. PARTICIPATION OF THE REGULATED ENTITY'S MANAGEMENT**

22. The senior management of the Regulated Entity under review should be invited to give a presentation on the overall performance of the Regulated Entity. The format of this presentation would be determined by the relevant Home Supervisor and should, as far as practicable, be completed before the presentation by the Home Supervisor.
23. The formal invitation to the relevant Regulated Entity should outline in a clear and transparent manner, what is expected from them, in terms of content and time, and in particular which areas the presentation should focus. The focus of the presentation should be discussed with the college members prior to the issuance of the invitation to senior management.
24. The invitation to the senior management of the relevant Regulated Entity must be issued at least three (3) months prior to the college.
25. It should be noted that the senior management of the Regulated Entity is not allowed to participate in, or view regulatory presentations.

#### **H. SCOPE OF THE ACTIVITIES OF THE SUPERVISORY COLLEGE**

Key Objective: *To share relevant information that reflects the risk profile and supervisory processes of the Regulated Entity as well as information needs of college members.*

26. Supervisory colleges should be structured in a way that enhances effective oversight of international Regulated Entities, taking into account the scale, structure and complexity of the Regulated Entity, its significance in host jurisdictions and the corresponding needs of its supervisors.
27. The supervisory college should include discussions on the following issues:
- (i) the solvency and financial stability of the Regulated Entity;
  - (ii) the assessment of intra-group transactions and exposures;
  - (iii) corporate governance, internal control and risk management within the Regulated Entity; and
  - (iv) appropriate actions to mitigate risks identified;
  - (v) sovereign debt exposure in the region / Caribbean

28. The following represents a set of non-exhaustive illustrative examples of information that may be shared within a college (*see Appendix I for College of Regulators Form*):

- (i) Detailed supervisory risk assessments and significant findings from relevant supervisory reviews (which may include primary risks across businesses and geographic lines);
- (ii) Analysis of the impact of the operating environment in material/relevant jurisdictions or markets on the Regulated Entity, and results of stress tests, as appropriate;
- (iii) Analysis of gaps or shortfalls in management information systems capabilities;
- (iv) Supervisory plans;
- (v) Compliance with other key requirements;
- (vi) Detailed organisational charts and key supervisory contact lists for both day-to-day supervisory and crisis management purposes;
- (vii) Key financial reports/statements of financial position and prospects;
- (viii) Capital adequacy and liquidity position/plans;
- (ix) Adequacy of reserves and asset liability matching inclusive of results of stress tests conducted;
- (x) Supervisory and/or regulatory actions taken against a related / connected party that may significantly affect the Regulated Entity's operations;
- (xi) Crisis preparedness plans;
- (xii) Supervisory assessments of risk governance and risk culture (if applicable);
- (xiii) Group-wide and subsidiary strategic plans;
- (xiv) Supervisory assessment of anti-money laundering (AML) programmes and practices;
- (xv) Information on systemically important insurers' exposures;
- (xvi) Highlights of relevant material reports from sources such as internal audit, compliance, external audit and external consultants; and
- (xvii) Information about other relevant exogenous factors that may be useful.

29. Legislative constraints to consolidated supervision and access to information must also be highlighted and discussed if relevant.

## **I. SETTING THE AGENDA**

30. The agenda may comprise organisational matters and issues relevant to prudential and/or conduct of business supervision.

31. A draft agenda should be distributed to the college members to advise of proposed agenda items and to give them an opportunity to provide feedback. An invitation to the college should accompany the draft agenda. College members should be advised of the deadline to propose amendments. The amended agenda should be distributed to members at least two (2) weeks before the college date.



## J. MEETING

32. The Home Supervisor must chair the supervisory college. It is anticipated that the supervisor would lead off the college with a presentation on the Regulated Entity, outlining inter alia:
- (i) the financial performance;
  - (ii) assessment of corporate governance, risk management and internal controls;
  - (iii) supervisory concerns;
  - (iv) significant changes within the Regulated Entity; and
  - (v) any regulatory action taken.
33. The presentation by the management of the Regulated Entity should be held before the meeting of the college of regulators. Time should be allotted for question and answer session at the end of the presentation by senior management of the Regulated Entity. This will facilitate direct interaction between the regulators and the Regulated Entity's senior management and provide an opportunity for the regulators to raise both group-wide and jurisdiction specific issues.
34. Time should be allotted for a question and answer session at the end of the presentation. Time should also be allotted to allow the other college members / host supervisors to present any developments or supervisory issues that may be occurring in their respective jurisdictions. Larger jurisdictions may also make formal presentations.
35. Members should attempt to schedule the date for the next college meeting, as far as practical, at the end of each college.

## K. FUNDING

36. The Home Supervisor is expected to bear the cost of hosting the supervisory college, and make all administrative arrangements, when it is occurring in their jurisdiction. This includes, inter alia:
- (i) lunch for delegates;
  - (ii) conference facilities; and
  - (iii) provision of internet access.
37. If colleges cannot be convened for financial reasons, the use of technology to facilitate supervisory discussions, for example, video and teleconferencing must be considered.

*Appendix I – Risk Assessment Sheet*

**RISK ASSESSMENT SHEET**

**COLLEGE OF SUPERVISORS MEETING**

Name of Company

Nature of licence (Company/Branch/Other)

Host Regulator

Name of Home Regulator


**Brief history of the Company in the jurisdiction**

--

**1 a) Capital**

b) Solvency Requirement

c) Statutory Deposit Requirement

d) Insurance Funds Requirement

Is the Company compliant

Yes

No

*Comments:*

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**2 Asset Quality**

Real Estate as a percentage of Total Assets

Ordinary Shares as a percentage of Total Assets

Does the Company have more than 5% of Total Assets in any one counterparty

Yes

No

Is the use of non-government securities limited

Yes

No

Is the company compliant with Regulatory Standards on Asset Quality

Yes

No

*Comments: (The major types of investment in the company's portfolio should be included in your comments)*

--

**3 Reinsurance**

Regulatory Standard for Reinsurance

--

Policyholders' Surplus (PHS)

--

Net Written Premiums (NWP)

--

Is NWP more than 3 times of PHS?

$$\text{Capacity Ratio} = \frac{\text{NWP}}{\text{PHS}} = \frac{3}{1}$$

Yes

	No	
--	----	--

If Yes, state Amount and %

--

Whether the Company's retention per risk or per event exceeds 10% of its PHS?

Yes

	No	
--	----	--

If Yes, state Amount and %

--

State Probable Maximum Loss (PML) of the Company on its Property Insurance Business

--

Whether the Limit on Catastrophe Excess of Loss (CATXL) Treaty is lower than the PML of the company?

Yes

	No	
--	----	--

If Yes, state Amount and %

--

Is the Company compliant

Yes

	No	
--	----	--

Comments

--

**4 Actuarial Liabilities**

Comments: (Are the reserves for the general insurance companies computed by an actuary?)

--

**5 Corporate Governance, Risk Management & IC**

Briefly describe the company's organisational structure, management structure (Family Owned, Dominance Risk etc), Competence, Internal Control, Corporate Governance etc.

Is the company compliant with Regulatory Requirements including ICP 7 & 8 (discuss)

Comments

**6 Liquidity and Interest Rate Risk**

Regulator's Liquidity Standard

Is the Company compliant

Yes

No

Comments

**7 Subsidiaries and Related Parties**

Total receivables from subsidiaries and affiliates as a percentage of Total Asset

If the company is in a group or conglomerate, discuss any regulatory concerns regarding group supervision.

List of subsidiaries.

**8 a) Types of product sold (Life / General Insurance Company)**

General Company	Life Company	Yes	No
Motor Vehicle	Whole Life		
Property	Health		
Liability	Annuity		
Personal Accident	Investment Linked		
Marine , Transport , Aviation	Other		
Pecuniary Loss			

**b) Five years Gross, Net Written and Earned Premiums**

	Year 1	Year 2	Year 3	Year 4	Year 5
Gross Premiums					
Net Written Premiums					
Earned Premiums					

**c) Five years Loss Ratio and Expense Ratio**

	Year 1	Year 2	Year 3	Year 4	Year 5
Loss Ratio					
Expense Ratio					

**SUMMARY:**

*External Factors that impact the Insurance Company*

*Are there any Compliance Issues that may lead to Enforcement Action?*

*Regulatory Action Taken or Directives Issued*

*Your Organization's Top Three (3) Concerns for the Insurer*

***Key Regulatory Observations / Findings from Recent Supervisory Work***

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***Any Regulatory changes/upcoming developments in your jurisdiction with potential impact on the Insurer***

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***Upcoming Supervisory Reviews Planned for the Insurer***

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***Any other Issues***

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*\* This is an amended version of CAIR – COR - Risk Assessment Sheet. Refer to ICP 25 for further guidance*

*APPENDIX II – Non-Disclosure Agreement*

**Non-disclosure Agreement**

between

(INSERT HOME SUPERVISOR’S NAME)

and

(INSERT PARTICPANT’S NAME)

This Agreement made this            day of            , by the Participants of the Supervisory College (Participants) as listed hereunder in respect of .....  
*(insert name of Company)* to be held on ...*(date)*..... at  
*(location)*..... .

**WHEREAS:**

- (A) Participants are desirous of having confidential discussions pursuant to the Framework to strengthen the effectiveness of supervision of Regulated Entities with cross-border operations for the purpose of:
  - a. enhancing information sharing by the gathering and dissemination of relevant or essential information in going concern and emergency situations;
  - b. developing a common understanding of the risk profile of Regulated Entities;
  - c. achieving coordination of supervisory review and risk assessment of the Regulated Entity by promoting a shared agenda for addressing risks and vulnerabilities; and
  - d. establishing supervisory plans for the mitigation of risks by communicating key supervisory messages among college members

(C) The Participants require that the nature of the discussions and any information provided will be kept confidential.

(D) The Participants agree that in consideration of the disclosure of such information, the information provided at the College will be kept confidential in accordance with terms of this Agreement.

**NOW IT IS HEREBY AGREED** as follows:

**1. Confidential Information**

- a) “Confidential Information” shall include but not be limited to regulatory information furnished during the College. It includes information of whatever nature, relating to the business of the Regulated Entity including but not limited to knowledge or data which is not in the public domain and in which the Participants have a legal duty to protect, and which was furnished during the College pursuant to or in the course of discussions.
- b) The Participants expressly understand that the Confidential Information disclosed to them under this Agreement is of valuable and highly sensitive nature.
- c) Participants agree to make all reasonable efforts to protect the Confidential Information obtained during the College.
- d) Confidential Information shall be used for supervisory and regulatory purposes and shall not be divulged to any third Party

**3. Duration and Termination**

All rights and obligations of the parties accruing under this Agreement shall survive termination of the substantive Agreement.



5. **Severability**

In the event that any one or more of the terms and conditions contained in this Agreement shall be determined invalid, unlawful or unenforceable in any respect, then such term(s) or condition(s) shall be severed from the remaining terms and conditions which shall continue to be valid and enforceable to the fullest extent permitted by law.

Signed for and on behalf of )  
**INSERT HOME SUPERVISOR'S NAME** )  
 )  
 By INSERT NAME OF AUTHORIZED SIGNATORY )  
 Its DESIGNATION OF PERSON )  
 in the presence of: )

Witness to affix: Signature  
 Name  
 Designation  
 Address

Signed for and on behalf of INSERT NAME )  
 OF PARTICIPANT BODY/AUTHORITY )  
 By INSERT NAME OF AUTHORIZED SIGNATORY )  
 OF PARTICIPANT )  
 DESIGNATION OF PERSON )

in the presence of )  
)

Witness to affix: Signature

Name

Designation

Address