

OFFICE OF THE CONTROLLER OF INSURANCE
COI Directive No.3

On Reinsurance Management Strategy for Insurance Companies

Applicability

1. This Directive is issued under section 4(b)(f) of the Insurance Act 1986 and is applicable to all insurance companies licensed by the Controller of Insurance to conduct insurance business in Solomon Islands.

Background

2. The Controller of Insurance under the Insurance Act 1986 is mandated by section 4 (b)(f) and section 6 of the Act to regulate the affairs of the Insurance Industry and issue directions to insurers, brokers, agents and policyholders.
3. The Insurance Act 1986, seeks to promote stability within the insurance industry, thereby, maintaining confidence in the relationship between policyholders and insurance companies. Confidence in the insurance industry can be eroded if insurance companies engage in unethical behaviour. By law, insurers have a duty of care to policyholders.
4. Generally, an insurer carries in its financial statements a significant liability to meet its obligations to policyholders and claimants. One of the most important risk management tools available to insurer to mitigate this risk is reinsurance. Reinsurance management plays a vital role in ensuring the insurer's ability to meet these obligations and ensures its viability and capital protection.
5. Reinsurance management refers to the selection, monitoring, review and control of reinsurance arrangements within acceptable risks parameters, where a portion of the risks assumed by an insurer is ceded to another insurer or reinsurer.
6. Reinsurance, however, exposes the insurer to other risks including operational, legal, counterparty and liquidity risks. An insurer's financial soundness and reputation can be severely affected if its reinsurance risk management practices and procedures are inadequate. To mitigate this risk each insurance company should have formal policies and procedures document that is adopted by its Board of Directors or Proxy Board and which clearly establishes a framework for the insurer's reinsurance practices.

Purpose of Directive.

7. The requirements in this guideline are specified pursuant to section 41 of the Insurance Act 1986 (hereinafter 'the Act') to ensure that insurers effectively establishing sound reinsurance management framework in conducting insurance business.

8. The Controller of Insurance acknowledges the differing practices that insurance companies have, to determine the appropriate reinsurance cover and their choice of reinsurers.
9. This Directive sets out the minimum requirements for insurance company's development of Reinsurance Management Strategy of insurance companies licensed to conduct insurance business in Solomon Islands.

Definitions

10. As used in this Directive the following terms, unless otherwise clearly indicated by the context, have the meanings specified below.
11. "**Act**" means the Insurance Act 1986 unless otherwise specified.
12. "**Board**" refers to the Insurer's Board of Directors.
13. "**Senior Management**" refers to the Insurer's executive management or the highest tier of management.
14. "**Cession**" is the amount of risk which the insurance company reinsures; the amount passed on to the reinsurer.
15. "**Retrocession**" is the amount of risk that a reinsurance company reinsures; the amount of a cession which the reinsurer passes on.
16. "**Reinsurance Business**" means the business of undertaking liability to pay money to insurers or reinsurers in respect of liabilities incurred by insurers or reinsurers on the basis of policies of insurance or reinsurance.

Role of the Board

17. The Board is required to:
 - a. identify, assess and document the risk appetite of the company; and
 - b. approve a reinsurance strategy that is appropriate to the company's overall risk profile.
18. The reinsurance strategy must define and document the insurer's strategy for reinsurance management, identifying the procedures for:
 - a. selecting and monitoring reinsurance programs; and

- b. determining all aspects of a reinsurance program, including the:
 - i. identification and management of aggregation risks;
 - ii. identification and management of upper bounds of programs; and
 - iii. selection of participants including consideration of diversification and creditworthiness.

19. The Board must ensure that all legal and regulatory requirements for reinsurance are complied with.

- a. An insurer must at all times have in place arrangements approved by the Controller of Insurance for reinsurance of liabilities in respect of risks against which persons are, or are to be, insured in the course of it carrying on insurance business in the Solomon Islands.
- b. An insurer must submit details of its reinsurance arrangements to the Controller of Insurance as soon as possible after the commencement of the period of cover provided by the arrangements.
- c. In determining whether an insurer's arrangements for reinsurance are satisfactory, the Controller of Insurance must have regard to all matters that it considers relevant and, in particular to:
 - i. the class or classes of insurance business carried on or proposed to be carried on by the insurer;
 - ii. the amount of premiums retained by the insurer during its last preceding financial year in respect of each class of business carried on by it;
 - iii. the amount of premiums expected to be retained in respect of each class of business by the insurer during its next financial year;
 - iv. the retention limits in each class of insurance business carried on or proposed to be carried on by the insurer;
 - v. the insurer's exposure to catastrophic loss;
 - vi. the amount of the insurer's capital and free reserves;
 - vii. the nature and value of the assets of the insurer;
 - viii. the places in which liabilities of the body corporate may be incurred; and
 - ix. the person or persons by whom the reinsurance is or is proposed to be undertaken.

20. The Board must review the Reinsurance Management Strategy once every calendar year for General Insurers and once every five calendar years for Life Insurers. In addition, the Reinsurance Management Strategy must be reviewed when there have been changes in the company's circumstances, its underwriting strategy, or the status of its reinsurers.

21. If the insurer is part of a global insurance group or operates as a foreign insurer, its Reinsurance Management Strategy is to include information on its global reinsurance policy. This may include policy objectives and strategies in respect of reinsurance management, but must particularly include the reporting arrangements between Solomon Islands and foreign or home office operations, the monitoring of Solomon Islands operations by the foreign parent or home office and the home regulator's supervisory arrangements regarding reinsurance. Where elements of the Reinsurance Management Strategy are controlled by the home office or foreign parent, these are to be identified and detailed in the institution's Reinsurance Management Strategy.

Role of Senior Management

22. Senior management must define and document clear operational policies and procedures for implementing the Reinsurance Management Strategy approved by the Board. This includes:
 - a. setting underwriting guidelines that specify the types of insurance to be underwritten, policy terms and conditions, and aggregate exposure by type of business;
 - b. establishing limits on the amount and type of insurance that will be automatically covered by reinsurance (e.g. treaty reinsurance); and
 - c. establishing criteria for acquiring facultative reinsurance cover.
23. In order to avoid uncovered risks, the terms and conditions stipulated in the reinsurance arrangements are to be compatible with those of the underlying business.
24. Adequate internal control systems must be in place to ensure that all business activities are carried out in accordance with the Reinsurance Management Strategy and that the planned reinsurance cover is in place.
25. Senior management must ensure proper and effective reporting systems are in place, according to the requirements of the Board.

Internal Control

26. The Reinsurance Management Strategy must be a well-defined control structure to monitor and report on the company's reinsurance arrangements. The Senior Management is responsible for establishing a company's internal controls.
27. The monitoring and review functions of a Reinsurance Management Strategy must, at a minimum, cover the following:

- i. the identification and recording of policies underwritten, to which reinsurance is attached;
- ii. the identification of dates when an obligation to pay reinsurance premium arises;
- iii. the identification of cases where a company has suffered a loss under a policy against which a reinsurance recovery can be made;
- iv. the management of the timing of payments to, and collection from, reinsurance counterparties;
- v. the credit standing and capacity of reinsurance counterparties to meet obligations;
- vi. the concentration of reinsurance programs with reinsurance counterparties, which would create large exposures;
- vii. the accessibility of intra-group funding under a range of conditions;
- viii. the impact of adverse trends in estimated insurance liabilities on reinsurance and implications for the capacity of the insurer to meet its future policyholder obligations; and
- ix. any other internal control measure so recommended by the insurer's internal auditors.

28. Internal control systems that are in place must be subject to annual audit examination.

Fronting

29. Fronting is the passing on to a reinsurer, of all liability to pay money to an insured on an insurance policy. Licensed Insurers must not engage in fronting.

30. To avoid fronting, each insurance company must assess its reinsurance arrangements according to the definition of 'reinsurance businesses provided in paragraph 16.

Reporting to the Controller of Insurance Office

31. For the purpose of this Policy, all licensed insurance companies are required to provide to the Controller of Insurance, the company's Reinsurance Management Strategy within 90 calendar days after every review period as required in section 41(2) of Insurance Act 1986.

32. An insurer must adhere to its Reinsurance Management Strategy at all times and must advise the Controller's Office of instances where it intends to undertake activities in a manner that would represent a deviation from its Reinsurance Management Strategy. Any such activities must first be approved by the Insurer's Board.

33. An insurer must inform the Controller of Insurance immediately in writing if there is a likelihood of a problem arising with its reinsurance arrangements that is likely to materially detract from its current or future capacity to meet its obligations, and discuss with Controller of Insurance its plans to address this situation.
34. An insurer must submit to the Controller of Insurance, the most recent Reinsurance Management Strategy for the purpose of onsite examination.

Implementation

35. The Controller of Insurance will assess the compliance of the Insurers with the requirements of this Directive during on-site examinations.
36. Insurers have a transition period of ninety (90) calendar days from the effective date to complete the following:
- Report on their compliance with this Directive.
 - Submit to Controller of Insurance a plan and timeframe for rectifying areas of non-compliance with this Directive.

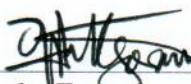
Enforcement and Corrective Measures

37. An Insurance Company, which fails to comply with the requirements contained in this Directive or to submit certain reports to the Controller of Insurance, which are materially inaccurate, will be considered in breach of this guideline and therefore, may be subject to a monetary penalty.
38. The Controller of Insurance may pursue any or all corrective measures as provided in section 9 of the Insurance Act 1986 to enforce the provisions of this Directive:

Effective Date

39. The effective date of this Directive is January 1st 2020.

Issued this 6th day of December 2019.



Dr Luke Forau
Controller of Insurance