



## **FINANCIAL SERVICES COMMISSION**

### **Procedure for the Approval of New Insurance Policies and Insurance Policy Amendments under Section 90 of the *Insurance Act 2001* June 2007**

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#### **1. Introduction**

In 2003, the Financial Services Commission (“FSC”) issued new guidelines in regard to the approval of new and amended insurance policies by companies. These guidelines emphasized a Board of Directors (“Board”) responsibility to oversee this process, rather than FSC’s detailed line by line review. This guideline also offered an expedited approval process where certain conditions were met.

A review of the approvals under this policy has indicated that the process has been working reasonably well, and so the initial period will be extended indefinitely.

The purpose of this current guideline is to outline the conditions under which the FSC is prepared to extend this process. This involves the further strengthening of a Board’s responsibility to include requiring the development of a framework for monitoring and reviewing the performance of their insurance policies as well as ensuring the equitable treatment of policyholders. In addition to monitoring their insurance policies on a regular basis companies must consider re-pricing the insurance policies if the assumptions and/or parameters deviate significantly from those originally incorporated into the initial design.

This systematic review, under the control and guidance of a Board, would give the FSC greater confidence that new or amended insurance policies do not put the solvency of the company at undue risk, that policyholders are treated fairly and policyholders are provided with adequate information to be able to make reasoned judgments about the value of the insurance policy on offer.

It should be noted that the FSC’s approval in no way signifies that the FSC gives the company a “license” to sell the insurance policy indefinitely. The approval signifies that at the current time, based on the current environment, the FSC is satisfied that the

appropriate procedures have been followed to ensure the viability of the product. The FSC expects the company to monitor both the performance of the insurance policy and the economic and social environment and to make appropriate changes if the performance of the insurance policy is not in accordance with expectations, or if such changes in the environment have an impact on the viability of the insurance policy.

## **2. Application**

This guideline applies to all registered insurance companies that seek to have insurance policies approved by the FSC under section 9 of the Insurance Act, 2001.

## **3. Reporting to the FSC**

The FSC will base its approval of new and amended insurance policies on documents submitted by the company, as well as representations as to the process that has been followed.

The documents that must be submitted to the FSC with respect to an application for approval of a new or amended insurance policy are:

- a. a signed statement by the Chief Executive Officer certifying that the Company's Board Approval Policy has been followed and stating the date the Company's Board has given its approval for the new/amended insurance policy, and
- b. the documents listed in Guideline IR-GUID-03/11-0004, November 2003 (Appendix 1).

The FSC continues to be committed to a 5-day turn around target for the approval of Jamaican dollar denominated insurance policies. Foreign currency denominated insurance policies will be reviewed and approved as expeditiously as possible. Kindly note that, for foreign currency denominated insurance policies, the FSC must receive documentary evidence of the Bank of Jamaica's approval before it will grant permission for the product to be sold.

## **4. Board Approval Policy**

The FSC expects a Board to implement a policy on the process to be followed regarding the review and approval of new and amended insurance policies. Once the Board Approval Policy has been approved by a Board, it should be submitted to the FSC. The policy must cover the following items:

- a. Identification of the nature and scope of an appropriate committee responsible for the product development process. This Committee should include representatives from all the functional areas involved in implementing policies: e.g. actuarial, marketing, legal, information technology, client relationship manager, administration and investments;

- b. The conduct of appropriate market research and feasibility studies;
- c. Actuarial responsibility for the product design, pricing/profit testing and risk assessment consistent with sound business and financial practices and Board approved levels of profitability;
- d. In cooperation with actuarial; the investment department's responsibility to assess the expected rate of return on assets, if any, that the insurance policy is likely to generate, the investment risks involved and asset-liability matching issues;
- e. The actuarial and investment review which should realistically assess the development of reserves under the policies, the need for capital and eventual contributions to capital and surplus, under the assumptions adopted for the marketing of the insurance policy. The review should include sensitivity testing, the use of dynamic solvency testing techniques developed for valuation purposes and risk mitigation strategies;
- f. Development of computer systems specifications;
- g. Development of business rules in relation to marketing and servicing of the product;
- h. Systems testing of the product, rates and values, user acceptance testing, and systems development;
- i. The drafting of the contract, marketing material, sales illustration and training materials and their review by the parties involved;
- j. A detailed review of the insurance policy by the legal department to ensure compliance with appropriate Jamaican laws among other things;
- k. Preparation of a procedure manual for administering the insurance policy;
- l. Elaboration of the company's training plan to ensure the successful communication of the product to the public;
- m. Preparation of a comprehensive product development report on all aspects of the work of the committee including projected performance relative to targets, expected impact on the financial performance of the company, any problems related to financial, administrative or other aspects that might be foreseen and their mitigation, and recommendations. This report should include at a minimum the following items:
  - o Pricing

- Market research
  - Financial projections
  - Legal review
- n. Submission of the product development report to the Executive Management and to the Board. The Chief Executive Officer would be expected to certify that the product is in full compliance with these guidelines as well as any other statutory requirements;
- o. The process by which the Board gives its final approval of and accepts responsibility for all aspects of the insurance policy and its launch;
- p. The filing of appropriate documentation with the FSC;
- q. The Board's policy regarding reviews of the companies insurance products, including the frequency of such regular reviews, the features to be included in each review, and circumstances that might cause the company to review a product other than during the regular reviews;
- r. The review should encompass the profitability of the product, as well marketing plans, illustrations, staff training and disclosure of elements of the insurance policy and any other features that the company considers material. The review could result in recommended actions resulting from the outcome of such reviews (or could result in no changes in some cases). For major product lines the FSC expects the review to take place at least annually. There would be no charge to file amended product disclosure documentation with the FSC, any changes to the insurance policy itself (e.g. contract, application forms, rates, specifications) however would attract the regular fees for amendments.

## 5. Procedure to be followed

The FSC expects all companies to review their current product development policy in regard to new and amended insurance policies to ensure that it complies with the requirements specified above and to file the policy with the FSC. If the company is of the opinion that the current policy filed with the FSC complies with all the requirements above, the company should confirm this in writing with the FSC. The FSC would then examine the policy and request changes, if need be. Once the policy has been approved by the FSC, the company would be expected to follow it when submitting new or amended insurance policies for approval. If the Board authorizes variations of the general policy for specific products and/or amendments, the FSC should be informed, together with reasons for the variation.

Once a new product or amendment to an existing product is decided upon by a company, the new or amended insurance policy cannot be implemented until the appropriate

documents have been filed with and approved by the FSC. The FSC would examine the documentation, and either give its approval or request further information where it deems it necessary. In cases where additional information is requested, the FSC would approve the new or amended product once it is satisfied that all the procedures have been followed and it has no further concerns.

Periodic reviews do not have to be filed with the FSC, but the Board is expected to keep to the timetable established for such reviews and during on-site examinations the FSC would look at the reviews in order to satisfy itself that:

- a. regular reviews are being are being done; and
- b. the reviews are being carried out in accordance with the Board Approved Policy.

The FSC could also request the results of a review from time to time, not necessarily in conjunction with an on-site inspection.

## **6. Effective date of procedure**

The proposed effective date for this new procedure is **Monday, November 5, 2007**. Companies should submit their revised Board approved policies or letters confirming that their existing policies, which were previously submitted to the FSC, comply with this guideline no later than **Friday, August 31, 2007**.

For further information regarding this guideline please contact:

Mrs. Angela Beckford, Chief Actuary, Financial Services Commission at telephone number 906-3010-12 or by e-mail: [beckforda@fscjamaica.org](mailto:beckforda@fscjamaica.org)

## Appendix 1

### Documents required under Guideline IR-GUID-03/11-0004

1. All relevant information regarding the insurance policy including:
  - a. Policy contract
  - b. Application forms
  - c. Policy illustrations and brochures (if applicable)
  - d. Policy specifications
  - e. Rate sheets
  - f. Endorsements
2. A signed statement by the company's legal counsel that he/she has reviewed the insurance policy and determined that it conforms to the appropriate laws of Jamaica.
3. A signed statement by a product development actuary that:
  - a. he/she has reviewed the insurance policy and has found the premium rates to be adequate;
  - b. he/she has reviewed the policy illustrations (if applicable) and found that they provide full, true and plain disclosure to the consumer.
4. A signed statement from the Chief Executive Officer of the company that the insurance policy is in full compliance with the provisions of regulation 122;
5. A fee of \$10,000 for new policies and \$5,000 for amendments as required by regulation 164 of the Insurance Regulations.