



Standard Report of Insurance Core Principles (Data Compilation of the D-8 Countries)

as Prepared by the Financial Standards Foundation (<http://www.estandardsforum.org/>)

[This document is subject to be improved, and served as discussion material only for discussion during the Meeting on Financial Infrastructure Development for the D-8 Countries, to be held in Cairo, Egypt, on 4-5 October 2009].

Standard : Insurance Core Principles

Level of Compliance: **Need to be Improved**

Summary

The Asian Development Bank (ADB), in several reviews since 1998, found the insurance sector in Bangladesh underdeveloped and poorly regulated. A 2003 report published by the Bangladesh Enterprise Institute also concluded that the insurance industry suffered from undue political interference, fraudulent claims, inadequate risk assessments, and limited and poor quality private sector participation. In the light of the situation, the ADB sanctioned a technical assistance loan to Bangladesh in 2007 to, inter alia, overhaul the insurance legislation, create a new and autonomous regulatory authority in line with international best practices, and improve the governance of the sector as a whole. In the meantime, an independent Insurance Regulatory Authority (IRA) has been established as a unified regulator supervising all public and private insurance entities under the Insurance Regulatory Authority Ordinance and the Insurance Ordinance of 2008. The ordinances repealed the 1938 Insurance Act (as amended in 1993) that had governed the insurance sector in Bangladesh. Prior to the creation of the IRA, the Controller of Insurance in the Department of Insurance, housed within the Ministry of Commerce, regulated the insurance sector. The fate of the 2008 ordinances and consequently the IRA, however, is unknown since they were promulgated / created by the caretaker military government that ceded power to a democratically elected government in January 2009. The ordinances need to be approved by the new parliament within 30 days of its first session to remain valid, notes the Daily Star, the largest English daily in Bangladesh, which adds that the ordinances have been drafted in line with international best practices.

General Overview

The insurance industry in Bangladesh has recently seen rapid growth driven by accelerating economic growth, notes a 2008 ADB report describing a technical assistance loan to improve the country's capital markets and insurance sector. There are 62 insurance companies in the country, including two state-owned enterprises, the Jiwan Bima Corporation (JBC) for life insurance, and the Sadharan Bima Corporation (SBC) for general insurance. Nevertheless, the country remains behind its neighbors in the sub-continent, especially India and Pakistan, both in terms of premium income and penetration. Only 1.5 percent of the population has life insurance coverage in Bangladesh, as compared to 4.5 percent in Pakistan and 7.5 percent in India. Further, per capita insurance premium in 2003 was found to be only 2.1 percent (Pakistan 2.9 percent and India 16.4 percent). On the upside, the ADB finds that growth in premiums was remarkable. Life insurance sector clocked a growth in premiums of 22 percent per year between 2001 and 2003, whereas general insurance showed an 11 percent per year growth in the same period.

The SBC website describes the developments in the Bangladeshi insurance industry over time. The private-sector driven insurance industry that operated during British control and after independence, in the former East Pakistan was nationalized by the Bangladesh government that came into existence in 1971. The 1972 Presidential Order No. 95 nationalized all types of insurance business, except postal and foreign life insurance, and created five government insurance corporations in the life and non-life sectors. Later, Insurance Corporation Act VI of 1973 abolished the five corporations to give way to two nationalized corporations: the SBC for general insurance and the JBC for life insurance. In 1984, with the promulgation of the Insurance Corporations (Amendment) Ordinance 1984, the insurance business was reopened to private sector participation. However, the legal framework favors public sector domination of the insurance industry. The Insurance Corporation (Amendment) Act of 1990 provides that "50% of all insurance business relating to any public property or to any risk or liability appertaining to any public property shall be placed with the SBC and the remaining 50% of such business may be placed with this corporation or with any other insurers in Bangladesh." The SBC website adds that "for practical reason and in agreement with the Insurance Association of Bangladesh, SBC underwrites all the public sector business and 50% of that business is distributed among the existing 43 private general insurance companies equally under National Co-insurance Scheme." Regarding reinsurance, the same act requires companies to place 50 percent of their reinsurance business with the SBC. The remainder may be placed with any insurer, whether in Bangladesh or abroad, or may be placed with the SBC. In practice, nearly every company places 100 percent of its reinsurance business with the SBC.

Prior to 2008, the insurance sector in Bangladesh was governed by the Insurance Act of 1938, as amended in 1993. The Office of the Chief Controller of Insurance (OCCI) in the Department of Insurance (DoI), housed within the Ministry of Commerce (MoC) provided regulatory oversight. The Asian Development Bank (ADB), in its several observations since 1998, had found the insurance sector in Bangladesh underdeveloped and poorly regulated. In 2001, the ADB had found that "insurance regulation and supervision... are extremely weak, putting participants at risk and retarding the mobilization of long-term savings" (p. 2). Further, the senior regulatory staff at the OCCI had neither industry experience nor formal training, and the organizational structure, policies, and procedures of the OCCI were also too deficient to enable effective enforcement of insurance laws. A 2006 news release by the ADB echoed a similar sentiment, stating that the insurance sector was "underdeveloped" and "characterized by a very limited range of products and services, poorly trained insurance staff, and few investment opportunities." It also found the legal framework weak, which adversely impacted the reputation of the industry. A 2003 analytical report edited by Sobhan and Werner listed the following drawbacks in the insurance industry in Bangladesh: (1) undue political interference; (2) absence of or insufficient assessments for insurable risks; (3) policy issuance without premium payment; (4) false insurance claims; (5) difficulties in realization of genuine claims; and (6) corrupt practices like accepting bribes for document processing or tax evasion on underwriting, etc. Further, private sector products were limited and service poor, with high defaults on claims and inadequate avenues for investment of funds. Airing concern for the malaise afflicting the insurance sector in Bangladesh, the 2008 ADB report drew attention to the low public awareness of insurance products and services, and poor training and lack of motivation in insurance representatives in the field. Consumer protection was grossly neglected both legally as well as in practice, as evident in numerous instances of unsettled or defaulted claims that have consequently led to a loss of reputation of the industry. The growth of the industry was further jeopardized, per the ADB, by the absence of adequate demographic statistics for insurance companies to make actuarial computations and the limited avenues available to the companies to invest the premium income for additional investment income. Professional management of the vast reserves with the insurers in low-yielding government bonds or bank savings accounts could potentially stimulate economic growth on a national scale, the ADB averred. Further, the ADB noted that the OCCI had limited monitoring and enforcement powers, and a huge backlog of insurance companies waiting to be licensed. The ADB recommended "strengthening the OCCI, restructuring the state-owned insurance entities following international best practices, and liberalizing compulsory reinsurance arrangements" (pp. 24-25) in order to reform the insurance sector.

In the light of the situation, the ADB announced a loan to Bangladesh to buttress the government-led reforms in the securities and insurance sectors. In the insurance sector, the loan aimed to overhaul the insurance legislation and create a new regulatory authority in line with international best practices. The 2008 ADB report elaborates upon the capital markets reform project underway in Bangladesh. The project entails a USD 3 million loan as well as technical assistance to Bangladesh to improve its capital markets and insurance sector. It was approved in 2003, and in 2005 and 2006 various missions were sent for fact-finding, appraisal, loan negotiation, consideration and approval, with the loan disbursement and technical assistance phase starting in 2007. The entire project, which is divided into two parts, is expected to reach completion in 2009. The Bangladesh government is to contribute USD 1 million towards the project. The ADB reports that the expected completion date of Part 2 of the project - Enhancement of Governance and Capacity of the Insurance Sector - that is to start in July 2008 will be December 2009, and that the chief agency responsible for its execution will be the OCCI. Elaborating upon the design of Part 2 of the project, its performance indicators, and expected outputs, the 2008 ADB report states the following. To create a sound and efficient insurance sector and improve governance and investor confidence in the sector, the project aims to establish benchmark numbers of trainees and licenses; enhance the quality and number of reports of the insurance regulatory authority; and increase the growth rate of premiums, from 22 percent in 2004 to 25 percent in 2010 for life insurance, and from 11 percent in 2004 to 15 percent in 2010 for general insurance. To enhance the regulatory capacity and training of the OCCI staff, the project will engage in training the OCCI staff as well as the industry, recommend new rules and regulations, assist the OCCI in implementing the new legislation, automate the OCCI and develop the management information system so as to enable more timely and in-depth analysis of the sector, update mortality tables and premium levels for life and non-life companies, and provide them with statistical databases. The ADB expects the newly trained OCCI regulatory staff to be absorbed by the new regulatory authority that will be established by the pending legislation. Also, state-owned enterprises (JBC and SBC) will be restructured and their governance improved through a comprehensive development plan for these entities. This will include handling the impact of the new legislation on the JBC and SBC, including resource requirements, restructuring and operational improvements, abolition of compulsory reinsurance arrangements with the private insurers, and comparison with other similar institutions in the region.

As the 2008 ADB report mentioned, the insurance sector regulation was being overhauled with the drafting of three laws the Insurance Regulatory Authority Act, the Insurance Act, and the Takaful (Islamic Insurance) Act. The overhaul would also include the establishment of an Insurance Regulatory Authority (IRA), which would be autonomous, and have the power to regulate the state-owned JBC and SBC as well as all private insurance companies on an equal footing under a uniform regulatory framework. The overhaul also planned to phase out the OCCI. Per the report, the above planned changes were expected to be made by mid-2006. A Weekly Market Review published by Asset & Investment Management Services of Bangladesh (AIMS of Bangladesh) in October 2008 mentions in this regard the passing of the Insurance Regulatory Authority (IRA) Ordinance and the Insurance Ordinance in 2008. The Review expects the ordinances to be effective soon. Under the above ordinances, the IRA will be under the Ministry of Finance (MoF), unlike the OCCI that was housed in the MoC, and be the unified regulator and supervisor of all public and private insurance entities. The Insurance Ordinance will repeal the Insurance Act of 1938 and the Insurance Rules of 1958, the Review adds. The Ordinance has some notable new stipulations. They include: (1) setting up of a Policyholders' Protection Fund; (2) greater capital requirements for insurers; (3) creation of brokerage houses for insurance policies; (4) mandatory solvency margins for insurers; (5) allowing foreign investment in the insurance sector; (6) reduction of the number of directors from 20 to 15. Insurance entities will have their paid-up capital increased from 200 million takas to 400 million takas (in the case of the life sector) and from 90 million takas to 300 million takas (in the case of the non-life sector). They will be required to meet the new requirements in five years. The web version of the Daily Star of Bangladesh, the largest English language daily newspaper in the country, adds that under the new regime, the IRA will be a five member body led by a Chairman. The ordinances also put a limit on commission expenses, and stipulate the

valuation of life insurance companies on a yearly basis, as well as a separation of conventional and Islamic insurance businesses. Per the newspaper, the new ordinances "have been drafted in line with international best practices, particularly with the model of India's Insurance Regulatory and Development Authority" and aim to modernize the insurance sector and provide proper guidelines to the businesses. The Daily Star, however, notes that since these ordinances were passed by the interim/caretaker government, the new government must validate them within 30 days of the convening of the first session of the new parliament. The fate of these ordinances, therefore, is yet to be known.

The Bangledia website mentions two of the many institutions, associations, and professional organizations that cooperate to promote a more profitable and reputable insurance industry in Bangladesh. These include the Bangladesh Insurance Association and Bangladesh Insurance Academy. The former was created in 1988 to protect and promote the interests of the member insurance companies. The Bangladesh Insurance Academy, per its website, was set up in 1973 by a government resolution under the administrative control of the MoC to provide insurance education and training to professionals in this sector. Bangladesh is not listed as a member on the IAIS website.

Further information on compliance with the principles of this standard is provided below.

ICP 1 Conditions for effective insurance supervision

Level of Compliance: Need to be Improved

According to the 2001 ADB report, "insurance regulation and supervision... are extremely weak, putting participants at risk and retarding the mobilization of long-term savings" (p. 2). A 2006 news release by the ADB found the legal framework weak, which adversely impacted the reputation of the industry. The 2003 Sobhan and Werner edited report also found that the DoI provided "no leadership or incentive to take a more active role in monitoring and intervention in its supervisory capacity" (p. 48). The 2008 ADB report mentioned that the insurance sector regulation was being overhauled with the drafting of three laws the Insurance Regulatory Authority Act, the Insurance Act, and the Takaful (Islamic Insurance) Act. The overhaul would also include the establishment of an Insurance Regulatory Authority, which would be autonomous, and have the power to regulate the state-owned JBC and SBC as well as all private insurance companies on an equal footing under a uniform regulatory framework. The overhaul also planned to phase out the OCCI within the DoI. Per the report, the above planned changes were expected to be made by mid-2006. The Weekly Market Review published by AIMS of Bangladesh in October 2008 mentions the passing of the Insurance Regulatory Authority (IRA) Ordinance and the Insurance Ordinance in 2008. The Review expects the ordinances to be effective soon. The Ordinances will create the IRA as the unified regulator and supervisor of all public and private insurance entities and make it a part of the MoF, unlike the OCCI that was housed in the MoC. The Insurance Ordinance will repeal the Insurance Act of 1938 and the Insurance Rules of 1958, the Review adds. However, the web version of the Daily Star of Bangladesh notes that since these ordinances were passed by the interim/caretaker government, the new government must validate them within 30 days of the convening of the first session of the new parliament. The fate of these ordinances, therefore, is yet to be known. However, the information cited does not specifically address Bangladesh's compliance with ICP 1.

ICP 2 Supervisory objectives

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Bangladesh's compliance with ICP 2.

ICP 3 Supervisory authority

Level of Compliance: Insufficient Information

The OCCI of the DoI under the MoC provided regulatory oversight of the insurance sector, as of 2008. According to the 2001 ADB report, the senior regulatory staff at the DoI had neither industry experience nor formal training, and the organizational structure, policies, and procedures of the DoI were too deficient to enable effective enforcement of insurance laws. Also, the DoI had not been computerized, which further hampered enforcement and reach. An undated article on the Bangladesh Bank website titled "Financial Sector in Bangladesh" stated that a distinct Insurance Regulatory Authority was in the process of being created in Bangladesh. Providing further information on this statement, the 2008 ADB report noted that the 2008-2009 project aimed to enhance the regulatory capacity and training of the OCCI staff. It would, therefore, engage in training the OCCI staff as well as the industry, recommend new rules and regulations, assist the OCCI in implementing the new legislation, automate the OCCI and develop the management information system so as to enable more timely and in-depth analysis of the sector, update mortality tables and premium levels for life and non-life companies, and provide them with statistical databases. The ADB expected the newly trained OCCI regulatory staff to be absorbed by the new regulatory authority that will be established by the pending legislation. The Weekly Market Review published by AIMS of Bangladesh in October 2008 mentions the passing of the Insurance Regulatory Authority (IRA) Ordinance and the Insurance Ordinance in 2008. The Review expects the ordinances to be effective soon. The Ordinances will create the IRA as the unified regulator and supervisor of all public and private insurance entities and make it a part of the MoF, unlike the OCCI that was housed in the MoC. The Insurance Ordinance will repeal the Insurance Act of 1938 and the Insurance Rules of 1958, the Review adds. The web version of the Daily Star of Bangladesh adds that under the new regime, the IRA will be a five member body led by a Chairman, who will be a full-time member and be of a rank not less than a Secretary. The terms of the members will be three years. The number of directors will be decreased from 20 to 15 and seven of these will be policyholders. However, the Daily Star notes that since these ordinances were passed by the interim/caretaker government, the new government must validate them within 30 days of the convening of the first session of the new parliament. The fate of these ordinances, therefore, is yet to be known. The information cited above notwithstanding, there is insufficient publicly available information as to Bangladesh's compliance with ICP 3.

ICP 4 Supervisory process

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Bangladesh's compliance with ICP 4.

ICP 5 Supervisory cooperation and information sharing

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Bangladesh's compliance with ICP 5.

ICP 6 Licensing

Level of Compliance: Need to be Improved

The Banglapedia website spells out the government guidelines for the creation of an insurance company under the Insurance Act 1938. Company sponsors must submit an application form to the OCCI for prior permission. The application passes through three levels of scrutiny, comments, and recommendations starting with the OCCI, going to the MoC, and ending with the Cabinet Committee specially constituted for this purpose. If the Committee approves the application, the affirmation gets back to the sponsors of the company via the MoC and the OCCI. Once approved, the sponsors are required to register as a public liability company with the Registrar of Joint Stock Companies under the Companies Act, obtain permission from the SEC to issue shares, and make reinsurance arrangements. The OCCI

grants license to conduct business after these steps. The 2008 ADB report notes that the OCCI staff is overworked and has a huge backlog of new applicants waiting to be licensed by it. The 1938 Insurance Act has, however, been repealed by the 2008 Insurance Ordinance, the Weekly Market Review published by AIMS of Bangladesh in October 2008 notes. There is little further information publicly available as to Bangladesh's compliance with ICP 6.

ICP 7 Suitability of persons

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Bangladesh's compliance with ICP 7.

ICP 8 Changes in control and portfolio transfers

Level of Compliance: Need to be Improved

The 2003 report edited by Sobhan and Werner observed that major stakeholders in private insurance companies controlled at least 40 percent of the shares, making independent shareholder intervention difficult. However, there is little further relevant information in relation to Bangladesh's compliance with ICP 8.

ICP 9 Corporate governance

Level of Compliance: Need to be Improved

The 2003 analytical report edited by Sobhan and Werner mentioned that the World Bank and ADB studies have suggested that formulating corporate governance principles that are internationally aligned would favorably impact the insurance sector in Bangladesh. The ADB approved a USD 3 million loan to Bangladesh to improve governance practices in the insurance sector. The project, per the 2008 ADB report, was to be executed by the OCCI and reach completion expectedly by December 2009. There is little further information publicly available as to Bangladesh's compliance with ICP 9.

ICP 10 Internal control

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Bangladesh's compliance with ICP 10.

ICP 11 Market analysis

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Bangladesh's compliance with ICP 11.

ICP 12 Reporting to supervisors and off-site monitoring

Level of Compliance: Need to be Improved

Governed by the Insurance Act of 1938, the OCCI regulated the insurance sector in matters of financial reporting. However, the World Bank noted that the Insurance Act did not mandate the use of Bangladesh Accounting Standards (BASs) or International Financial Reporting Standards (IFRSs). Moreover, the World Bank pointed that "accounting and disclosure requirements under the Insurance Act lead to significant deviations from IAS [International Accounting Standards] requirements" (p. 8). The Insurance Act has been repealed by the Insurance Ordinance of 2008 and it is not clear how this legislative overhaul affects IFRS application in the insurance industry. In terms of Bangladesh's adoption of international accounting standards, a 2003 World Bank review of the accounting and auditing environment in Bangladesh noted that national practices were not in line with internationally acceptable standards and suffered from "institutional weaknesses in regulation, compliance, and enforcement of standards and rules." The World Bank therefore

recommended improving the accounting and auditing framework by adopting IFRSs without any modifications and setting up an independent oversight body for enforcing international standards. As part of its efforts towards convergence, per Deloitte IAS Plus website, as of 2007 the Institute of Chartered Accountants of Bangladesh (ICAB) adopted 31 IFRSs as Bangladesh Accounting Standards. These standards, however, are based on an older version of IFRSs. In 2008, according to the ICAB website, Bangladesh adopted additional four new IFRSs. The national standards are mandatory for all listed companies, including banks. In a 2009 Action Plan, the ICAB reiterates its commitment to convergence and makes clear that it will be adopting international standards on an ongoing basis. The new regulatory regime framed by the Insurance Regulatory Authority (IRA) Ordinance of 2008 and the Insurance Ordinance of 2008 also requires all insurers, both life and general, to apply international accounting practice, the Daily Star website reveals.

ICP 13 On-site inspection

Level of Compliance: Need to be Improved

The 2003 analytical report edited by Sobhan and Werner mentioned that the OCCI had neither well-trained staff nor the institutional infrastructure to take an active monitoring role as part of its supervisory capacity. However, this information is not sufficient to address Bangladesh's compliance with ICP 13.

ICP 14 Preventive and corrective measures

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Bangladesh's compliance with ICP 14.

ICP 15 Enforcement or sanctions

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Bangladesh's compliance with ICP 15 apart from a statement in the 2008 ADB report that the OCCI had limited monitoring and enforcement powers.

ICP 16 Winding-up & exit from the market

Level of Compliance: Need to be Improved

The 2003 analytical report edited by Sobhan and Werner noted that between 2001 and 2002, two petitions for winding up an insurance company came before the courts, reflecting a "significant and welcome shift in judicial approach to petitions for winding up of inability to pay debts of financial institutions on equal footing with other companies" (p. 41). However, there is little further information publicly available regarding Bangladesh's compliance with ICP 16.

ICP 17 Group-wide supervision

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Bangladesh's compliance with ICP 17.

ICP 18 Risk assessment and management

Level of Compliance: Need to be Improved

The 2003 analytical report edited by Sobhan and Werner lists as major drawbacks in the insurance industry the absence of or insufficient assessments for insurable risks and policy issuance without premium payment, due mainly to political interference. It also observes that the private sector companies suffer from high defaults on claims and inadequate avenues for investment of funds. However, there is little further information publicly available regarding Bangladesh's compliance with ICP 18.

ICP 19 Insurance activity

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Bangladesh's compliance with ICP 19.

ICP 20 Liabilities

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Bangladesh's compliance with ICP 20.

ICP 21 Investments

Level of Compliance: Need to be Improved

According to the 2005 ADB report, an ADB-funded Capital Market Development Program (CMDP) in Bangladesh in effect since 1997 required the government of Bangladesh to relax the investment guidelines for insurance companies under the Insurance (Amendment) Act. However, an assessment of the program found that "the government did not actively pursue this condition" (p. 4). The 2008 ADB report added that the growth of the insurance industry was jeopardized by the limited avenues available to the companies to invest the premium income for additional investment income. Professional management of the vast reserves with the insurers in low-yielding government bonds or bank savings accounts could potentially stimulate economic growth on a national scale, the ADB averred. There is little further information publicly available that directly addresses Bangladesh's compliance with ICP 21.

ICP 22 Derivatives and similar commitments

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Bangladesh's compliance with ICP 22.

ICP 23 Capital adequacy and solvency

Level of Compliance: Need to be Improved

The new regulatory regime framed by the Insurance Regulatory Authority (IRA) Ordinance of 2008 and the Insurance Ordinance of 2008 will introduce a mandatory solvency margin for all insurance companies, the Daily Star website reveals. Also, the paid up capital for the sector has been increased. Insurance entities will have their paid-up capital increased from 200 million takas to 400 million takas (in the case of the life sector) and from 90 million takas to 300 million takas (in the case of the non-life sector). There is, however, insufficient information publicly available as to Bangladesh's compliance with ICP 23.

ICP 24 Intermediaries

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Bangladesh's compliance with ICP 24 apart from an ADB statement in its 2008 report wherein it pointed out the poor training and lack of motivation of the insurance representatives in the field. The new regulatory regime framed by the Insurance Regulatory Authority (IRA) Ordinance of 2008 and the Insurance Ordinance of 2008 mandates all insurers, especially general insurers to have brokerage houses, the Daily Star website reveals.

ICP 25 Consumer protection

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Bangladesh's compliance with ICP 25. The 2008 ADB report mentioned that consumer protection was grossly neglected in the insurance sector both legally as well as in practice, as evident in numerous instances of unsettled or defaulted claims that consequently led to a loss of reputation of the industry. However, the Daily Star website reveals that the new regulatory regime framed by the Insurance Regulatory Authority (IRA) Ordinance of 2008 and the Insurance Ordinance of 2008 puts limits on commission expenses and introduces an annual valuation system for life insurance companies to replace the two-year valuation. These two steps are designed to "protect policyholders' interests." Further, a Policyholders' Protection Fund will also be established.

ICP 26 Information, disclosure & transparency towards the market**Level of Compliance: Need to be Improved**

There is insufficient information publicly available regarding Bangladesh's compliance with ICP 26.

ICP 27 Fraud**Level of Compliance: Need to be Improved**

A 2003 analytical report edited by Sobhan and Werner listed the following drawbacks in the insurance industry in Bangladesh: false insurance claims and corrupt practices like accepting bribes for document processing or tax evasion on underwriting. There is little further information publicly available regarding Bangladesh's compliance with ICP 27.

ICP 28 Anti-money laundering/ Combating the Financing of Terrorism**Level of Compliance: Need to be Improved**

The Bangladesh Bank's Guidance Notes on the Prevention of Money Laundering declares that the Money Laundering Prevention Act (MLPA) of 2002 specifically deals with money laundering, and its provisions "supersede whatever may contain in any other Act in force in Bangladesh" (undated p. 15). The Guidance Notes further spell out the scope of the MLPA. Section 2 Tha of the MLPA defines money laundering as an offense and sets out the applicable penalties. Section 19 Ka of the MLPA requires all entities engaged in financial activities to institute "know your customer" procedures. This Section also requires that such entities collect and maintain reliable and complete information on their customers, along with transaction records, for a minimum of five years after the relationship has been terminated. Section 19 Ga of the MLPA requires all institutions engaged in financial activities, as well as their staff, to report to the Bangladesh Bank any suspicions of money laundering. Section 19 Kha of the MLPA requires that these institutions provide the Bank with customer identification and transaction records on demand. The Guidance Notes add that non-compliance by banks and other financial institutions with respect to customer identification and record keeping stipulations of the MLPA will attract "proper action for such negligence and failure" (undated p. 17) by the licensing authority, including imposing fines in the range of Taka ten thousand and Taka one lac.

However, the 2009 U.S. DoS report points out that Bangladesh only began in mid-2007 to develop a national identity card (in the form of a voter registration card) and a large number of Bangladeshis do not possess a passport. Therefore, there are difficulties in enforcing customer identification requirements. The 2008 Money Laundering Prevention Ordinance (MLPO) introduced a new set of financial organizations that must report to the Bangladesh Bank. These reporting organizations include insurance companies. However, the U.S. DoS report points out that the inclusion of these new ROs [reporting organizations] pose new regulatory and oversight challenges for the [Bangladesh Bank's] Anti-Money Laundering Department (AMLDD) (p. 106). Additionally, the government under the Foreign Exchange Regulation Act of 1947 also regulates insurance companies.

In May 2007, the AMLD of the Bangladesh Bank was designated as Bangladesh's FIU and the MLPO of 2008 legally established its existence. The central bank is authorized to analyze suspicious transaction reports (STRs) and cash transaction reports (CTRs) and maintain a financial intelligence database and related information. The central bank may call for and receive from reporting organizations any information related to suspicious transactions which may involve money laundering and/or terrorist financing and direct these organizations to take measures to combat money laundering and terrorist financing activities. Further, the 2008 Anti-Terrorism Ordinance authorizes the filing of STRs related to terrorist financing, and empowers the Bangladesh Bank to monitor suspect financial transactions related to terrorist financing. However, the cited information is insufficient as regards Bangladesh's compliance with ICP 28.

ANNEX

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Relevant Organizations

Anti-Money Laundering Unit (AMLU), Bangladesh Bank (BB)
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Bangladesh Bank (BB)
<http://www.bangladesh-bank.org>

Bangladesh Insurance Academy (BIA)
<http://www.bia.gov.bd/>

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 Institute of Chartered Accountants of Bangladesh (ICAB)
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Insurance Regulatory Authority, Ministry of Finance (IRA)
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<http://www.mincom.gov.bd/>

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Methodology

For a more thorough discussion of our methodology, please visit our website. Below you find an explanation of qualifying criteria for information used in eStandardsForum's standard reports as well as a definition of the Levels of Compliance.

Sources

Sources used in this report are information that is objective and freely available to the public that pertain to a country's compliance with the requirements of any given standard. The defining characteristics of eStandardsForum's sources are public availability and objectivity. For example, third-party assessments of a country will take precedence over self-assessments. Nevertheless, in the absence of third-party assessments, self-assessments form an important source of information.

Standard : Insurance Core Principles

Level of Compliance: Need to be Improved

Summary

In December 2002, the World Bank and the International Monetary Fund (IMF) completed the Financial Sector Assessment Program (FSAP) for Egypt. The final report is not publicly available. However, a number of publications refer to the assessment, and state that Egypt's overall compliance with the international standards in different sectors of the economy was positive. A 2006 report by the IMF also noted that the Egyptian authorities aim to make insurance supervision compatible with international standards and that they requested an FSAP update in 2007 to evaluate the results of the ongoing reform of the financial sector. The 2007 FSAP Update by the IMF-World Bank team - as discussed in the IMF's 2007 Article IV report for Egypt - found that the country has made considerable progress in implementing the reforms initiated in 2004 and that it is now focusing on the non-bank financial sector, including insurance. The IMF commends Egypt for implementing these reforms in line with the 2002 FSAP recommendations. It, however, advises Egypt to gradually privatize the large state-owned insurance enterprises, enact important legislation for the sector, and move from compliance-based to risk-based supervision. It also calls for the unification of non-bank supervisory agencies to enable a coordinated risk-based supervisory approach. The 2007 Country Strategy Report prepared by the African Development Bank also points out that the reform of the financial system has been successful; however, important shortcomings still remain. Nevertheless, the sources of assessment do not directly address Egypt's compliance with the Insurance Core Principles promulgated by the International Association of Insurance Supervisors.

General Overview

In December 2002, the World Bank and the International Monetary Fund (IMF) completed the Financial Sector Assessment Program (FSAP) for Egypt, aimed at identifying strengths and vulnerabilities of the Egyptian financial system and determining policy responses and technical assistance strategies. The final report is not publicly available. It is, however, cited in a 2007 African Development Bank (AfDB) report, in which Egypt's compliance with international standards in different sectors of the economy was judged "generally positive" (p. 7). A 2006 report by the IMF also noted that the Egyptian authorities "are in the process of bringing supervision in ...insurance into compliance with international best practices" (p. 18) and had requested an FSAP update in 2007 to evaluate the results of an ongoing reform.

In 2007, the IMF-World Bank team updated the 2002 FSAP for Egypt. The Update - as discussed in the IMF's 2007 Article IV report for Egypt - found that the country has made considerable progress in implementing the financial sector reforms initiated in 2004 and that it is now focusing on the non-bank financial sector, including insurance. The aim is to "enhance financial intermediation, attract savings, and finance economic growth" (p. 17). The IMF commends Egypt for

implementing these reforms in line with the 2002 FSAP recommendations. It, however, finds that the viable state-owned insurance companies dominating all sectors of insurance are being restructured and amalgamated to form a "national champion" that will boast of being the largest insurer in the Middle East. The IMF looks at this move with skepticism and calls for the gradual privatization of the companies, given their record under public ownership. The authorities do plan to partially privatize the amalgamated company to instill market discipline in its operations. Going forward, the IMF advises Egypt to enact important legislation for the sector, and move from compliance-based to risk-based supervision. It also calls for the unification of non-bank supervisory agencies to enable a coordinated risk-based supervisory approach and to "[harmonize] governance, staff skills, and supervisory focus" (p. 16).

According to the Ministry of Finance (MoF), the Government of Egypt (GoE) realizes the need to strengthen the supervisory role of the Egyptian Insurance Supervisory Authority (EISA). The GoE is assisted by a number of international agencies, including the U.S. Agency for International Development (USAID) and U.S. Department of Commerce (US DoC). In 2000, the USAID completed the project "Reform of the Insurance Market," or RIM and later commenced a new project "Modernizing Egyptian Insurance Supervision," or MEIS which was finalized in 2003. According to the USAID/Egypt website, while the MEIS's objective was to strengthen the EISA's supervisory role and assist the regulator in implementing insurance sector reform, the aim of the Commercial Law Development Program (CLDP) of the US DoC was to raise public awareness of the insurance sector and to train the EISA's staff.

The 2007 Country Strategy Report prepared by the AfDB noted that the GoE's efforts to reform the financial system in Egypt have been successful. Nevertheless, important shortcomings still remain. Realizing the need to continue the reforms, in September 2004, the GoE launched the Financial Sector Reform Program (FSRP) which entails reforms in the banking sector, non-bank financial institutions, including the insurance sector; as well as strengthening enforcement capabilities of the regulatory bodies. The ADB approved in July 2006 a loan of US\$500 million for the realization of the program.

As stated in the EISA 2006 Annual Report, the insurance market in Egypt consists of the Supreme Council of Insurance, the EISA, the entities engaged in the insurance and reinsurance activities, 628 private insurance funds, the Government Insurance Fund, the Egyptian Insurance Federation, insurance pools, Cargo Supervision and Surveying Office of Egypt, and the Insurance Studies Institute. The main law governing the insurance sector is Act No. 10 of 1981. The Act was amended in 1995 by Law No. 91 and in 1998 by Law No. 156/1998, which allowed foreigners to fully own insurance companies (USAID/Egypt website). Article 6 of Act No. 10 established the EISA as an independent body responsible for the supervision and control of the insurance activity in Egypt. The EISA is listed as a member on the International Association of Insurance Supervisors website. Article 4 of the Act established the Supreme Council of Insurance which sets the general objectives of the insurance activity and approves the policies needed for the achievement of these objectives. As the 2008 Global Survey by the Institute of International Bankers (IIB) adds, the Act was further amended in 2007. The IIB expects the amendment to strengthen the supervisory authority of the EISA, enhance risk-based supervision, and focus on the financial solvency of companies to ensure the rights of the policy holders as well as to increase the financial independence of the EISA. The amendment will also segregate life insurance operations from property insurance, and allow the creation of professional and specialized insurance companies to better serve policy holders in a more competitive environment. Further, banks' involvement in marketing insurance products has also been addressed.

Vayanos and Hammoud, contributors to the Arab World Competitiveness Report released in 2007, note that the insurance sector in the Middle East and North Africa (MENA) was traditionally underdeveloped compared to the rest of the financial sector, due to the sensitivity of the issue from the Shari'a point of view, low awareness of insurance products, and the almost non-existence of the financial products required by life insurance providers to offset future

liabilities in the event of death. The supply of insurance products in the region is characterized by a large number of small players (as measured by the capital employed) and limited presence of foreign insurers. The authors concluded that, given the low demand and the low supply of insurance products, there is a significant potential for growth in the region which will require regulators to attend to the "underlying enablers of growth," (p. 102) comprised of the legal framework, regulatory bodies, nature of competition, skills and training, and market led-initiatives. The MoF also states that there is big potential for development of the insurance sector, since total insurance premiums in 2003/2004 amounted to 1.1% of GDP, while similar economies have 4-5%. Vayanos and Hammoud also report that, as of 2007, there were 20 insurance companies in the Egyptian market. Most of the companies are state-owned and they control 75% of the non-life insurance and 60% of the life insurance market.

Further information on compliance with the principles of this standard is provided below.

ICP 1 Conditions for effective insurance supervision

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 2 Supervisory objectives

Level of Compliance: Need to be Improved

Under Article 6 of Act No. 10, the EISA aims at the implementation of the following objectives: (1) to protect the rights of insurance policyholders, the beneficiaries and third parties; (2) to secure the achievement of the economic and social objectives of insurance activity and preserving the national savings and the foreign currency resources from flowing abroad; (3) to secure the soundness of the financial positions of the Insurance market units, coordinating among them and preventing any conflict between them; (4) to participate in developing insurance awareness in the country; (5) to support the insurance market and develop it; (6) to strengthen the ties of co-operation and integration with the other control and supervisory authorities at the Arab, African, and world level; and (7) to promote the insurance professions and to contribute effectively to the availability of the expertise. However there is insufficient publicly available information as to Egypt's compliance with ICP 2.

ICP 3 Supervisory authority

Level of Compliance: Need to be Improved

Act No. 10 established the EISA as an independent body responsible for the supervision and control of the insurance activity in Egypt (Article 6). The Act also established the Supreme Council of Insurance, which sets the general objectives of the insurance activity and approves the policies needed for the achievement of these objectives (Article 4). Under Article 7 of Act No. 10, the EISA is concerned with the implementation of the provisions of the Act and, in particular: (1) the supervision and control of individuals and bodies subject to the provisions of the Act; (2) the supervision and control of the Private Insurance Funds within their Act; (3) studying the legislation related to the insurance activity and expressing its view in any proposed decision or pursuit of the relevant draft laws to this activity; (4) representing the State at the international insurance and reinsurance bodies and companies in which the government decides to participate; (5) supporting the insurance studies and participating in their finance to serve the insurance market; (6) preparing and publishing the statistical data, reports and studies pertaining to the activities of the Egyptian insurance market and its units; (7) taking all the required measures to follow-up the implementation of the provisions of the Insurance Act and its regulations. However there is insufficient publicly available information as to

Egypt's compliance with ICP 3.

ICP 4 Supervisory process

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 5 Supervisory cooperation and information sharing

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 6 Licensing

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 7 Suitability of persons

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 8 Changes in control and portfolio transfers

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 9 Corporate governance

Level of Compliance: Need to be Improved

According to the MoF's undated report, Ministerial Decree No.157 of 2003 introduced corporate governance requirements for insurance companies. The decree mandated public and private insurance companies to form an audit committee from the Board of Directors. However, there is insufficient publicly available information as to Egypt's compliance with ICP 9.

ICP 10 Internal control

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 11 Market analysis

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 12 Reporting to supervisors and off-site monitoring

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle. However, according to Article 51 of Act No. 10, the EISA has the authority to inspect the books of insurance companies and to conduct examinations to ensure the soundness of companies' financial position. Further, per the 2008 IIB report, Decree No.

3561 was issued by the Ministry of Investment (MoI) in 2007 "enforcing Egyptian accounting standards on insurance and reinsurance companies, requiring them to prepare and publish their financial statements in accordance with the internationally accepted principles of disclosure and transparency" (p. 66).

ICP 13 On-site inspection

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 14 Preventive and corrective measures

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 15 Enforcement or sanctions

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 16 Winding-up & exit from the market

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 17 Group-wide supervision

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 18 Risk assessment and management

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 19 Insurance activity

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 20 Liabilities

Level of Compliance: Need to be Improved

Requirements for the liabilities of the insurance companies are specified in Chapter 9 of Act No. 10. However, there is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 21 Investments

Level of Compliance: Need to be Improved

Under Article 39 of Act No. 10, the value or assets of an insurance or reinsurance company should exceed its liabilities at any time by 20 percent of the net premiums of property and liability transactions or 25 percent of the net incurred claims of the preceding year whichever is the greater, provided that the amount deducted for outward reinsurance

transaction, at the time of calculating these ratios, must not exceed 50 percent of the gross premiums. However, there is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 22 Derivatives and similar commitments

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 23 Capital adequacy and solvency

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 24 Intermediaries

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 25 Consumer protection

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 26 Information, disclosure & transparency towards the market

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 27 Fraud

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Egypt's compliance with this principle.

ICP 28 Anti-money laundering/ Combating the Financing of Terrorism

Level of Compliance: Need to be Improved

Rules and regulations on anti-money laundering procedures for insurance companies in Egypt are set in Ministerial Decree No. 15 of 2002 and the 2003 EISA Rules for Combating Money Laundering in the Egyptian Insurance Market. A 2005 report on Egypt by the United Nations Office on Drugs and Crime indicates that the main law governing anti-money laundering in Egypt is the Anti-money Laundering (AML) Law No. 80 of 2002, as amended in 2003. Further, the EISA has been actively involved in issuing regulations related to Know Your Customer and Suspicious Transaction Reporting requirements. As a 2008 U.S. Department of State report elaborates, the Supervision Unit of the Central Bank of Egypt, the banking sector supervisor, shares regulatory authority over financial institutions with the Money Laundering Combating Unit, the country's Financial Intelligence Unit, especially with respect to their compliance with the AML Law. Article 86 of the Penal Code criminalizes the financing of terrorism; nevertheless, Egypt is in the process of replacing its old counterterrorism law with a new one that is expected to include more specific measures against terrorist financing. However, no information on the compliance of these regulations with ICP 28 is publicly available, nor is there any further information publicly available as to Egypt's compliance with this Principle.

ANNEX

Sources of Assessment

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http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2005/06/24/000012009_20050624102618/Rendered/PDF/321900rev3.pdf

Relevant Organizations

Cargo Supervision and Surveying Office A.R.E. www.cargo-sup-sur.com

Central Bank of Egypt (CBE)

<http://www.cbe.org.eg/>

Egyptian Insurance Supervisory Authority (EISA)

[http://www.investment.gov.eg/MOI_Portal/en-GB/Ministry+of+Investment/Affiliated_Entities/Egyptian+Insurance+Supervisory+Authority+\(EISA\).htm](http://www.investment.gov.eg/MOI_Portal/en-GB/Ministry+of+Investment/Affiliated_Entities/Egyptian+Insurance+Supervisory+Authority+(EISA).htm)

Insurance Federation of Egypt (IFE)

<http://www.ifegypt.com/en/>

Insurance Studies Institute (ISI)

Ministry of Finance (MoF)

<http://www.mof.gov.eg/english>

Ministry of Investment (MoI)

<http://www.investment.gov.eg>

Money Laundering Combating Unit, Central Bank of Egypt (MLCU)

Supreme Council of Insurance

Relevant Legislation/Regulation

Insurance Supervisory and Control Act No. 10, 1981 (as amended)

<http://www.eisa.com.eg/ACTNO10.htm>

Act No. 91, 1995

Executive Regulations of Insurance Law No. 10, 1981 (in Arabic only)

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http://www.weforum.org/pdf/Global_Competitiveness_Reports/Reports/chapters/2_4.pdf

Methodology

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Standard : Insurance Core Principles

Level of Compliance: **Intent Declared**

Summary

Following the Asian financial crisis of 1997 the Government of Indonesia, with the support of international financial institutions, has embarked upon the reform of its financial sector in order to alleviate the consequences of the crisis and initiate a long term reform program. According to a number of publications by the Asian Development Bank (ADB), which has been actively involved in the reform process, the regulatory and supervisory framework for the financial sector is inadequate, although steps are being taken to improve compliance with international standards, including Insurance Core Principles promulgated by the International Association of Insurance Supervisors. Under the Financial Governance and Social Security Reform (FGSSR) Program launched by the ADB in December 2002, the Government of Indonesia introduced a number of measures aimed at reinforcing supervision and regulation of the insurance sector. Specifically, the Ministry of Finance issued decrees on business conduct, auditing, solvency, and licensing of the insurance companies. As far as the establishment of the unified regulator is concerned, the 2006 ADB Country Strategy Plan for Indonesia for the period of 2006-2009 notes that the initial date for the establishment of the Financial Services Authority was postponed from 2003 to 2010. As the first step in the creation of the unified financial sector regulator, in November 2004, the Government of Indonesia merged the directorate for insurance and pensions under the Ministry of Finance with the capital market regulator, Bapepam, creating a non bank financial sector regulator called Bapepam LK. The supervision of the banking sector remained the responsibility of the Bank of Indonesia with a view to further merge the two regulators. In the 2006 Country Strategy Plan, the ADB reiterated its commitment to support the Indonesia's financial sector reform program, which was to be carried out through a second and third FGSSRs. One of the expected outcomes of these programs is to strengthen insurance supervision in line with international best practices.

General Overview

In the aftermath of the Asian financial crisis, international financial institutions led by the International Monetary Fund (IMF) provided a multi-donor rescue package to Indonesia, which was hit by the crisis more severely than other Southeast Asian countries, in order to alleviate the consequences of the crisis and to start a long-term reform process. The Asian Development Bank (ADB) has been actively involved in the effort by providing loans and rendering technical assistance. As indicated on the ADB website, "Indonesia is ADB's largest client for public sector loans, and its second largest recipient of technical assistance support." As described in the 2006 ADB report "Indonesia: Financial Governance and Social Security Reform Program," in 1998 the ADB developed the Financial Governance Reforms: Sector Development Program (FGRSDP), which aimed to restructure the banking sector, improve governance, and build a stronger legal and regulatory framework. By 2002, Indonesia had achieved a moderate recovery, with GDP

growth of 2.9%. However, the report found that weaknesses remained that undermined higher growth potential. Citing "weak and uneven regulation and supervision capabilities" (p. 2), the report found that the financial sector was fragile and structurally unbalanced. The report called for strengthening the regulatory framework and supervisory capacity. This would "improve the stability of the financial sector so that it could effectively play its role in facilitating long-term economic growth" (p. 2). Realizing the need for further reforms, the Government of Indonesia requested the assistance of the ADB in developing the system of integrated regulation and supervision of the financial services sector. One of the objectives of the Financial Governance and Social Security Reform (FGSSR) Program launched by the ADB in December 2002 was to facilitate the establishment of the unified regulator and bring Indonesia closer to compliance with international standards for prudential regulation and supervision, including Insurance Core Principles promulgated by the International Association of Insurance Supervisors (IAIS). The reform and restructuring of the insurance sector constituted an integral part of the FGSSR.

At that time, insurance companies in Indonesia were supervised by the Directorate of Insurance under the Ministry of Finance (MoF). Historically, according to the 2006 ADB report, the insurance sector in Indonesia was characterized by inadequate capital and licensing requirements, lack of international competition, and high fragmentation. Under the FGSSR, the Government of Indonesia introduced a number of measures aimed at reinforcing the supervision and regulation of the insurance sector. Specifically, the MoF issued decrees on business conduct, auditing, solvency, and the licensing of insurance companies. In 2004, these decrees were supplemented by implementation guidelines. The ADB 2006 Country Strategy Plan set the initial date for establishing Indonesia's Financial Services Authority (Otoritas Jasa Keuangan, or OJK), which was postponed from 2003 to 2010. As the first step in the creation of the unified financial sector regulator, in November 2004, the Government of Indonesia merged the directorates for insurance and pensions under the Ministry of Finance with the capital market regulator - Bapepam -- creating a nonbank financial sector regulator: Bapepam LK. Supervision of the banking sector remained the responsibility of the Bank Indonesia (BI), with a view to further merge the two regulators.

In its 2006 Country Strategy Plan for Indonesia for the period of 2006-2009, the ADB reiterated its commitment to support the Indonesia's financial sector reform program, which was to be carried out through the second and third FGSSRs. The expected results of the second and third FGSSRs are as follows: "(1) a strong independent non-bank financial sector regulator overseeing capital markets, insurance, and pensions, (2) market development and products and services that range from fund management to insurance/leasing, (3) strengthened enforcement and surveillance across non-bank sectors, (4) accounting standards in line with international governance and transparency standards, (5) enhanced institutional capacity and investor awareness, (6) developed debt market, including government bond markets/market infrastructure/ secondary trading, (7) strengthened insurance sector through strengthened regulations regarding reserves, capital requirements, reinsurance, and investment management in line with international best practices, and (8) pension reforms and improved governance, institutional capacity, and financial management in pension funds" (pp. 210-211).

The 2006 ADB report "Indonesia: Financial Governance and Social Security Reform Program" notes that the insurance industry in Indonesia is small, fragmented and is characterized by a strong state interference in the sector. As of 2005, there were 157 insurance companies in Indonesia, with total assets of 2.9% of GDP, and 1.8% of gross premiums of GDP.

Further information on compliance with the principles of this standard is provided below.

ICP 1 Conditions for effective insurance supervision

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 2 Supervisory objectives

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 3 Supervisory authority

Level of Compliance: Need to be Improved

Prior to 2004, insurance companies in Indonesia had been supervised by the Directorate of Insurance under the MoF. According to the 2006 ADB Country Strategy Plan for Indonesia, in November 2004, the Government of Indonesia merged the Directorate of Insurance with the capital market regulator -- Bapepam -- creating a nonblank financial sector regulator -- Bapepam LK. The supervision of the banking sector remained the responsibility of the Bank Indonesia with a view to further merge the two regulators. The report notes that Bapepam LK is under the MoF and thus does not have independence and flexibility in terms of its structure, staff, and employee's compensation. Nevertheless, there is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 4 Supervisory process

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 5 Supervisory cooperation and information sharing

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 6 Licensing

Level of Compliance: Need to be Improved

According to the 2006 ADB report on FGSSR, in Indonesia "historically... licensing requirements were loose" (p. 6), however, the MoF issued a decree on the licensing of insurance companies under FGSSR I. No further information as to Indonesia's compliance with this principle is publicly available.

ICP 7 Suitability of persons

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 8 Changes in control and portfolio transfers

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 9 Corporate governance

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 10 Internal control

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 11 Market analysis

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 12 Reporting to supervisors and off-site monitoring

Level of Compliance: Need to be Improved

According to the 2006 ADB report "Indonesia: Financial Governance and Social Security Reform Program," the MoF issued a decree on audits of insurance companies. However, there is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 13 On-site inspection

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 14 Preventive and corrective measures

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 15 Enforcement or sanctions

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 16 Winding-up & exit from the market

Level of Compliance: Need to be Improved

According to the 2006 ADB report "Indonesia: Financial Governance and Social Security Reform Program," the MoF issued a decree on financial solvency of insurance and reinsurance firms. However, there is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 17 Group-wide supervision

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 18 Risk assessment and management

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 19 Insurance activity

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 20 Liabilities

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 21 Investments

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 22 Derivatives and similar commitments

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 23 Capital adequacy and solvency

Level of Compliance: Need to be Improved

According to the 2006 ADB report "Indonesia: Financial Governance and Social Security Reform Program," the MoF issued a decree on financial solvency of insurance and reinsurance firms. However, there is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 24 Intermediaries

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 25 Consumer protection

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 26 Information, disclosure & transparency towards the market

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 27 Fraud

Level of Compliance: Need to be Improved

There is insufficient publicly available information as to Indonesia's compliance with this principle.

ICP 28 Anti-money laundering/ Combating the Financing of Terrorism

Level of Compliance: Need to be Improved

According to the 2006 World Bank report on the role of non-bank financial institutions, in May 2003 new requirements on money-laundering and financing of terrorism were introduced for insurance companies. No further publicly available information as to Indonesia's compliance with this principle is publicly available.

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General Insurance Association of Indonesia -- Asosiasi Asuransi Umum Indonesia (AAUI)

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Methodology

For a more thorough discussion of our methodology, please visit our website. Below you find an explanation of qualifying criteria for information used in eStandardsForum's standard reports as well as a definition of the Levels of Compliance.

Sources

Sources used in this report are information that is objective and freely available to the public that pertain to a country's compliance with the requirements of any given standard. The defining characteristics of eStandardsForum's sources are public availability and objectivity. For example, third-party assessments of a country will take precedence over self-assessments. Nevertheless, in the absence of third-party assessments, self-assessments form an important source of information.

Standard : Insurance Core Principles

Level of Compliance: Need to be Improved

Summary

Iran is not a member of the International Association of Insurance Supervisors (IAIS), and there is insufficient publicly available information as to the country's compliance with the Insurance Core Principles (ICPs) issued by the IAIS. At the time of the International Monetary Fund's (IMF) 2004 Selected Issues report, it was highlighted that, in addition to being "very small" and "underdeveloped," the insurance sector remained predominantly state-owned with excessive premiums. The insurance regulatory framework was further described as "outdated." The IMF's 2004 Article IV Consultation added that adequate privatization was not taking place in the insurance and the rest of the financial sector. At the time of these assessments, the authorization and licensing of private insurance companies were expected to enhance the development of the insurance sector. The IMF's subsequent 2005 Article IV Consultation report, published in 2006, welcomed the licensing of private insurance companies. It stressed, however, the importance of strengthening supervision in the insurance sector. The Central Insurance of Iran was established in 1971 as the regulator and supervisor for the insurance industry in Iran.

General Overview

The Central Insurance of Iran (CENTINSUR) was established in 1971 as the regulator and supervisor for the insurance industry in Iran. CENTINSUR has been carrying out local compulsory reinsurance, as well as reinsurance business internationally as part of its duties to reform the industry. CENTINSUR is a state-owned institution. In this regard, the Iranian government has extensive authority over the insurance industry. One of the key constituent organs of CENTINSUR is the High Council of Insurance with powers to approve decrees and by-laws. After the 1979 revolution, all players in the insurance market were nationalized. The insurance sector was privatized in 2002 pursuant to the Law on Administration of Private Insurance Companies. The main purpose of this bill was to improve Iran's competitiveness and efficiency in the insurance sector, and also help speed up the economic development process. Iran is not a member of the International Association of Insurance Supervisors (IAIS), and there is insufficient information publicly available as to Iran's compliance with the Insurance Core Principles (ICPs) issued by the IAIS.

At the time of the International Monetary Fund's (IMF) 2004 Selected Issues report, it was highlighted that the insurance sector was "very small" (p. 45) and "underdeveloped" (p. 37). The insurance regulatory framework was further described as "outdated" (p. 50), per the same report. The insurance industry remains predominantly state-owned with excessive premiums. The IMF's Article IV Consultation report, published the same year, added that little improvement had taken place in the area of insurance supervision. In particular, adequate privatization was not taking place in the insurance and

the rest of the financial sector. At the time of these assessments, the authorization and licensing of private insurance companies were expected to enhance the development of the insurance sector. The subsequent 2005 Article IV Consultation report, published by the IMF in 2006, welcomed the licensing of private insurance companies. It stressed, however, the importance of strengthening supervision in the insurance sector.

Under Iran's Fourth Five-Year Development Plan for 2005-2010, the IMF had called for an early implementation of reforms in the financial sector. The IMF had two key recommendations in the same report: (1) that a risk-based regulatory framework be implemented; and (2) that the government divest from its reinsurance business. The objective for these recommendations was that CENTINSUR focus more on its regulatory and supervisory role. Iranian authorities were preparing the fifth plan beginning of 2009, as reported on the Press TV website.

According to CENTINSUR's 2006-2007 Annual Report, approved foreign insurance and brokerage institutions are allowed to open contact offices in Iran. These offices are subject to Iranian regulatory laws that govern its insurance sector and are not permitted to sell insurance products or operate in the realm of insurance activities that exclusively belong to the local institutions. These offices can however, liaise between their mother company and Iranian companies on reinsurance matters or can also offer technical services and know-how on insurance. The CENTINSUR's 2006-2007 Annual Report points out that while private insurance companies have begun their operations since 2002, state-owned insurers remain the key players in the insurance market. In 2006, total insurance premiums amounted to approximately USD 2.78 billion, a 23.38 percent increase over the previous year. During the same period, the penetration rate reached 1.5 percent. As of 2006, per the CENTINSUR's 2006-2007 Annual Report, there were four state-owned insurance companies, fifteen private insurance and reinsurance companies, 7852 agents, and 263 insurance brokers operating in Iran.

Further information on compliance with the principles of this standard is provided below.

ICP 1 Conditions for effective insurance supervision

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 2 Supervisory objectives

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 3 Supervisory authority

Level of Compliance: Need to be Improved

CENTINSUR was established in 1971 as the regulator and supervisor for the insurance industry in Iran. CENTINSUR has been carrying out local compulsory reinsurance, as well as reinsurance business internationally as part of its duties to reform the industry. CENTINSUR is a state-owned institution. In this regard, the Iranian government has extensive authority over the insurance industry. One of the key constituent organs of CENTINSUR is the High Council of Insurance with powers to approve decrees and by-laws. As stated on its website, the CENTINSUR has the authority to

issue regulations and directives for the proper execution of insurance operations, to supervise insurance companies and provide protection to companies so as to ensure a sound functioning of the insurance market. Furthermore, CENTINSUR has powers to regulate and supervise issues related to agencies, brokers, and reinsurance matters to prevent "unfair" or "unsound" competition. Despite the information provided above, there is insufficient information publicly available to address Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 4 Supervisory process

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 5 Supervisory cooperation and information sharing

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 6 Licensing

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 7 Suitability of persons

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 8 Changes in control and portfolio transfers

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 9 Corporate governance

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 10 Internal control

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 11 Market analysis

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 12 Reporting to supervisors and off-site monitoring

Level of Compliance: Need to be Improved

As stated on the website of the Islamic Republic of Iran Audit Organization (IRIAO), the IRIAO sets the National Accounting Standards (NASs) in accordance with International Financial Reporting Standards (IFRSs). Consequently, to maintain the level of compliance, the IRIAO has been introducing new projects for incorporating revisions into NASs. As of February 2009, amendments of NASs aimed at harmonization with international standards were in process, indicates the IRIAO website. Nevertheless, the information provided above does not directly address Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 13 On-site inspection

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 14 Preventive and corrective measures

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 15 Enforcement or sanctions

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 16 Winding-up & exit from the market

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 17 Group-wide supervision

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 18 Risk assessment and management

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 19 Insurance activity

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 20 Liabilities

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 21 Investments

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 22 Derivatives and similar commitments

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 23 Capital adequacy and solvency

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 24 Intermediaries

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 25 Consumer protection

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 26 Information, disclosure & transparency towards the market

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 27 Fraud

Level of Compliance: Need to be Improved

There is insufficient information publicly available addressing Iran's compliance with this principle as revised in 2003 by the IAIS.

ICP 28 Anti-money laundering/ Combating the Financing of Terrorism

Level of Compliance: Need to be Improved

Iran does not have a functioning anti-money laundering (AML) framework in place, according to the IMF's 2006 Article IV Consultation report (published in 2007) and the U.S. Department of State's (DoS) 2008 International Narcotics Control Strategy Report. Shortcomings were also identified regarding Iran's framework for combating the financing of terrorism. In January 2008, Iran enacted the AML Law, which still requires implementing regulation, notes the IMF in its subsequent 2008 Article IV Consultation report. The U.S. has designated Iran as a State Sponsor of Terrorism, as pointed out in the U.S. DoS' 2008 report. Nevertheless, the available assessments do not directly address Iran's compliance with this principle as revised in 2003 by the IAIS.

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Relevant Legislation/Regulation

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Methodology

For a more thorough discussion of our methodology, please visit our website. Below you find an explanation of qualifying criteria for information used in eStandardsForum's standard reports as well as a definition of the Levels of Compliance.

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Sources used in this report are information that is objective and freely available to the public that pertain to a country's compliance with the requirements of any given standard. The defining characteristics of eStandardsForum's sources are public availability and objectivity. For example, third-party assessments of a country will take precedence over self-assessments. Nevertheless, in the absence of third-party assessments, self-assessments form an important source of information.

Standard : Insurance Core Principles

Level of Compliance: Need to be Improved

Summary

The insurance industry in Malaysia remains dominated by foreign providers, as stated in the U.S. Department of Commerce 2008 Country Commercial Guide, and the government continues to promote Islamic insurance and reinsurance, better known as takaful and retakaful sectors, as part of its strategy to make Malaysia a global hub for Islamic financial services. Stronger solvency positions and enhanced asset-liability management contributed to the sustained performance of the insurance industry in 2007, according to the Central Bank of Malaysia's (BNM) 2007 Financial Stability and Payment Systems Report. The BNM, established under the Central Bank of Malaysia Act No. 519 of 1958, functions as the regulatory and supervisory authority for the insurance industry since 1988. The Insurance Act No. 553 of 1996 and 1996 Insurance Regulations, which were amended in 2005, provide for the licensing, regulation and supervision of the insurance industry. Malaysia completed a detailed self-assessment in April 2001 of its observance of the Insurance Core Principles (ICPs) developed by the International Association of Insurance Supervisors (IAIS) in 2000, according to the Asian Development Bank's 2001 report. Based on Malaysia's self-assessment, 11 principles were observed, 4 were largely observed and 2 were materially non-observed. However, the ICPs and methodology were revised in October 2003 by the IAIS, and there is insufficient information publicly available regarding Malaysia's compliance with the more stringent principles. The ten-year Financial Sector Master Plan (FSMP) was formulated by the BNM in 2001 to set a timeline for the liberalization of the insurance industry. As of 2005, according to the BNM's 2005 Insurance Annual Report, 16 of the 31 recommendations of the FSMP were implemented.

General Overview

The Central Bank of Malaysia (BNM) was established under the Central Bank of Malaysia Act No. 519 of 1958, which was last revised in 1994. The BNM functions as the regulatory and supervisory authority for the insurance industry since 1988. According to a 2007 study by Dilli Raj Khanal, regulation of the industry falls into four categories, namely policy development, administration and enforcement, an actuarial function, and consumer education and complaints handling. The Insurance Act No. 553 of 1996 provides for the licensing, regulation and supervision of insurance and reinsurance companies, insurance brokers, and financial advisory business. The Insurance Act further incorporates more stringent rules for financial requirements, higher levels of disclosure, and transparency in operations. Insurance Regulations adopted in 1996 supplement the Insurance Act by prescribing the details of mandatory requirements contained in certain provisions of the Act. According to the BNM's 2005 Insurance Annual Report, the Insurance (Amendment) Act was enacted in 2005 to establish the legislative licensing framework for financial advisers in Malaysia. Subsequently, in October 2005, the Insurance Regulations of 1996 were amended via the Insurance (Amendment) Regulations to

prescribe the minimum capital requirements and licensing fees for financial advisers.

The ten-year Financial Sector Master Plan (FSMP) was formulated by the BNM in 2001 to set a timeline for the liberalization of the insurance industry. Phases of liberalization include increasing caps on foreign equity, fully opening the reinsurance industry to foreign competition, and lifting existing restrictions on employment of expatriate specialists, as stated in the Office of the United States Trade Representative's 2008 Trade Summary on Malaysia. As of 2005, according to the BNM's 2005 Insurance Annual Report, 16 of the 31 recommendations of the FSMP were implemented, and were predominantly directed towards strengthening resilience, building the capacity and capabilities of domestic insurers, raising professionalism and corporate governance standards in the industry, as well as strengthening consumer protection and supervisory framework. Further steps have been taken by the BNM to replace the rules-based approach with more principles-based regulation, while reinforcing its enforcement capabilities to ensure that insurance institutions deliver against a set of high-level principles of best practice.

According to the U.S. Department of Commerce (DoC) 2008 Country Commercial Guide, the insurance industry in Malaysia remains dominated by foreign providers. As part of the 1997 WTO Financial Services Agreement, Malaysia agreed in principle to allow existing foreign shareholders of locally incorporated insurance companies to increase their shareholding to 51 percent. The U.S. DoC report states that the government of Malaysia continues to promote "takaful" (i.e. Islamic insurance) as part of its strategy to make Malaysia a global hub for Islamic financial services. The BNM issued four new licenses in 2006, and announced that international takaful operators, both domestic and foreign, could apply for licenses to conduct business in international currencies, either as incorporated entities or as branches. Furthermore, on August 29, 2006, the BNM invited qualified domestic and foreign institutions to apply for licenses to provide "retakaful" (i.e. reinsurance under Islamic principles) services in Malaysia.

According to the BNM's 2007 Financial Stability and Payment Systems Report, stronger solvency positions and enhanced asset-liability management contributed to the sustained performance of the insurance, takaful and retakaful sectors in 2007. As of 2007, per the same report, there were 41 insurance companies in Malaysia, including 8 life-insurers, 7 reinsurance companies, 8 takaful operators, and 2 retakaful operators. Operating in parallel with conventional finance, Islamic finance has experienced rapid growth in recent years, enhancing its significance in the Malaysian financial system. Total assets of the takaful sector grew by 18.9% on average annually since 2003 to account for 6.9% of total assets of the insurance and takaful industry in 2007. During the same period, as stated in the BNM's 2007 Financial Stability and Payment Systems Report, combined premiums and contributions of the insurance and takaful sectors amounted to USD9 billion, an 11.4% increase from the previous year.

Insurance companies also provide offshore insurance services in Labuan, an offshore financial center located in Malaysia, under the Offshore Insurance Act No. 444 of 1990. In Labuan, Malaysia, businesses receive preferential tax treatment for offshore banking activities, trust and fund management, offshore insurance and offshore insurance-related businesses, and offshore investment holding businesses. The Labuan Offshore Financial Services Authority, which works closely with the BNM under the authority of the Ministry of Finance, licenses offshore insurance companies, and performs stringent background checks before granting an offshore license.

Malaysia completed a detailed self-assessment in April 2001 of its observance of the Insurance Core Principles (ICPs) developed by the International Association of Insurance Supervisors (IAIS) in 2000, according to the Asian Development Bank's (ADB) 2001 report. Based on Malaysia's self-assessment, 11 principles were observed, 4 were largely observed and 2 were materially non-observed. However, the ICPs and methodology were revised in October 2003 by the IAIS, and there is insufficient information publicly available regarding Malaysia's compliance with the more stringent principles. A workshop on self assessment of selected IAIS Insurance Core Principles (ICPs) was conducted in April

2005 by the ASEAN Insurance Training and Research Institute (AITRI), as noted on the Financial Sector Reform and Strengthening (FIRST) Initiative website. The aim of the project was to strengthen the insurance supervisory system in Asia by helping insurance supervisors from Asia implement new action plans, and improve their supervisory standards in line with international best practices. The workshop, funded by FIRST, was considered a success by both the sponsors and participants. In December 2005, the ASEAN insurance regulators and Secretariat held the 8th ASEAN Insurance Regulators Meeting in Siem Reap, Cambodia, in which it was recommended that AITRI strengthen its role as the regional training arm for the insurance regulators. To date, as stated on the FIRST Initiative website, the AITRI has helped ASEAN insurance regulators to complete five ICPs, namely ICP 6 on licensing, ICP 12 on reporting to supervisors and off-site monitoring, ICP 20 on liabilities, ICP 23 on capital adequacy and solvency, and ICP 25 on consumer protection.

Further information on compliance with the principles of this standard is provided below.

ICP 1 Conditions for effective insurance supervision

Level of Compliance: Need to be Improved

The BNM was established under the Central Bank of Malaysia Act No. 519 of 1958, which was last revised in 1994. The Insurance Act No. 553 of 1996 provides for the licensing, regulation and supervision of insurance and reinsurance companies, insurance brokers, and financial advisory business. The Insurance Act further incorporates more stringent rules for financial requirements, higher levels of disclosure, and transparency in operations. Insurance Regulations adopted in 1996 supplement the Insurance Act by prescribing the details of mandatory requirements contained in certain provisions of the Act. According to the BNM's 2005 Insurance Annual Report, the Insurance (Amendment) Act was implemented in 2005 to establish the legislative licensing framework for financial advisers in Malaysia. Subsequently, in October 2005, the Insurance Regulations of 1996 were amended via the Insurance (Amendment) Regulations to prescribe the minimum capital requirements and licensing fees for financial advisers. Nevertheless, there is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 2 Supervisory objectives

Level of Compliance: Need to be Improved

There is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 3 Supervisory authority

Level of Compliance: Need to be Improved

The BNM functions as the regulatory and supervisory authority for the insurance industry since 1988. According to a 2007 study by Dilli Raj Khanal, regulation of the industry falls into four categories, namely policy development, administration and enforcement, an actuarial function, and consumer education and complaints handling. Nevertheless, there is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 4 Supervisory process

Level of Compliance: Need to be Improved

In order to improve transparency, according to the ADB's 2001 report, the BNM was expected to develop an insurance website to disseminate laws, regulations and guidelines applicable to the insurance sector. The website was also intended to facilitate the release of key market indicators at regular intervals. Nevertheless, there is insufficient

information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 5 Supervisory cooperation and information sharing

Level of Compliance: Need to be Improved

According to the ADB's 2001 report, ICPs on cross-border business operations, and coordination and cooperation were assessed as materially non-observed due to legal constraints on the ability to share information with foreign supervisors. Despite these constraints, Malaysia continued to establish networking relationships with its counterparts to facilitate the exchange of information on an informal basis. However, the ICPs and methodology were revised in October 2003 by the IAIS, and there is insufficient information publicly available regarding Malaysia's compliance with the more stringent principles. The BNM, as stated in its 2005 Insurance Annual Report, engages actively with regional and international institutions to foster closer insurance cooperation among the regulators. In addition, the Malaysian Insurance Institute, which provides professional insurance education in Malaysia, collaborates closely with the insurance industry and internationally-recognized insurance institutes.

ICP 6 Licensing

Level of Compliance: Need to be Improved

The BNM manages the insurance sector, both through the regulation and supervision of insurance licensees, as noted in the 2007 study by Khanal. Per the same report, licenses have been renewed biannually since 1999 for proper management of financially strong brokers and adjusters. Nevertheless, there is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 7 Suitability of persons

Level of Compliance: Need to be Improved

In February 2004, as stated in the BNM's 2003 Insurance Annual Report, fit and proper requirements were further strengthened to ensure that persons exercising a controlling influence over insurance licensees were fit and proper. Nevertheless, there is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 8 Changes in control and portfolio transfers

Level of Compliance: Need to be Improved

There is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 9 Corporate governance

Level of Compliance: Need to be Improved

As stated in its 2005 Insurance Annual Report, the BNM assesses and evaluates the corporate governance practices of the supervised entities to ensure good standards of practices in all aspects of their operations. It further enters into regular contact with the boards of directors and management of supervised entities. As stated in its 2003 Insurance Annual Report, the BNM issued guidelines in December 1990 regarding the duties and responsibilities of directors and CEOs of insurance companies. In February 1995, per the same report, guidelines on audit committees and internal audit departments for insurance companies were published to define the requirements relating to the formation of the audit committee of an insurer. These guidelines were further revised in December 2004. In May 2000, the BNM issued a prudential framework of corporate governance for insurers, covering board responsibility and oversight, management accountability, corporate independence, internal controls and operation risk management, public accountability, and financial reporting.

The Malaysian Code on Corporate Governance was also adopted as part of the prudential framework. In May 2003, additional corporate governance standards were issued regarding the creation by insurers of nomination, remuneration, and risk management committees, as well as criteria to be met by independent directors. Finally, in December 2003, according to the BNM's 2003 Insurance Annual Report, insurers were required to provide specific disclosures on the aggregate remuneration of directors and CEOs in their annual financial statements with effect from July 1, 2003. As of 2005, according to the BNM's 2005 Insurance Annual Report, 16 of the 31 recommendations of the FSMP were implemented, and were directed, inter alia, towards raising professionalism and corporate governance standards in the insurance industry. However, the available sources do not directly address Malaysia's compliance with this principle.

ICP 10 Internal control

Level of Compliance: Need to be Improved

The BNM, as noted in its 2005 Insurance Annual Report, gives particular emphasis to sound corporate governance practices, strong risk management and internal controls, accountability of auditors and actuaries, and robust reporting and valuation processes. Nevertheless, there is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 11 Market analysis

Level of Compliance: Need to be Improved

There is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 12 Reporting to supervisors and off-site monitoring

Level of Compliance: Need to be Improved

The BNM, as noted in its 2005 Insurance Annual Report, gives particular emphasis, among other issues, to accountability of auditors and actuaries, and robust reporting and valuation processes. According to a regulatory and standard-setting framework assessment published by the Malaysian Institute of Certified Public Accountants (MICPA) in February 2005, the BNM serves as an advisor on the Malaysian Accounting Standards Board (MASB). The MICPA notes that insurance companies are required to submit to the BNM the audited financial statements containing detailed analysis of the accounts. The BNM also places reliance on the auditors in ensuring compliance with approved accounting standards issued by the MASB and guidelines issued by the BNM on accounting and financial reporting. Per the October 2006 update available from the Deloitte & Touche IAS Plus website, the MASB announced that Malaysia's newly revised Financial Reporting Standards were generally consistent with the International Financial Reporting Standards issued by the International Accounting Standards Board, and would take effect as of January 1, 2007. Nevertheless, there is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 13 On-site inspection

Level of Compliance: Need to be Improved

In August 2004, the new risk-based supervisory framework was launched with the aim of focusing supervisory attention on, and allocating resources in line with, the risk profile of financial institutions. The BNM, as stated in its 2005 Insurance Annual Report, conducts on-site examinations and offsite surveillance based on the newly enhanced risk-based supervisory framework. Nevertheless, there is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 14 Preventive and corrective measures

Level of Compliance: Need to be Improved

There is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 15 Enforcement or sanctions

Level of Compliance: Need to be Improved

According to the BNM's 2005 Insurance Annual Report, further steps have been taken by the BNM to replace the rules-based approach with more principles-based regulation, while reinforcing its enforcement capabilities to ensure that insurance institutions deliver against a set of high-level principles of best practice. Nevertheless, there is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 16 Winding-up & exit from the market

Level of Compliance: Need to be Improved

There is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 17 Group-wide supervision

Level of Compliance: Need to be Improved

According to the ADB's 2001 report, Malaysia's trend towards consolidation and financial convergence has created new challenges for the BNM. The report recommended continuously adapting the supervisory approach and prudential standards set by the BNM to take into account risks associated with financial groups. It was further advised to pay close attention to the potential impact on policyholders' interests following mergers and consolidations. Nevertheless, there is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 18 Risk assessment and management

Level of Compliance: Need to be Improved

The BNM, as noted in its 2005 Insurance Annual Report, gives particular emphasis to sound corporate governance practices, strong risk management and internal controls, accountability of auditors and actuaries, and robust reporting and valuation processes. In August 2004, the new risk-based supervisory framework was launched with the aim of focusing supervisory attention on, and allocating resources in line with, the risk profile of financial institutions. The BNM, as stated in its 2005 Insurance Annual Report, conducts on-site examinations and offsite surveillance based on the newly enhanced risk-based supervisory framework. The BNM further issued a second concept paper on the new risk-based capital framework, which addresses the future determination of solvency, as well as the supporting institutional risk management and governance framework that insurers will need to have in place. The paper was expected to be implemented by 2008. However, the available sources do not directly address Malaysia's compliance with this principle.

ICP 19 Insurance activity

Level of Compliance: Need to be Improved

According to the BNM's 2007 Financial Stability and Payment Systems Report, stronger solvency positions and enhanced asset-liability management contributed to the sustained performance of the insurance, takaful and retakaful sectors in 2007. Nevertheless, there is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 20 Liabilities

Level of Compliance: Need to be Improved

In September 2005, the BNM issued guidelines, which set out the minimum standards that must be observed by insurers with effect from December 1, 2005, including requirements on product design and pricing, fees and charges, management of funds, investment limits, and valuation of assets and liabilities. According to the BNM's 2007 Financial Stability and Payment Systems Report, stronger solvency positions and enhanced asset-liability management contributed to the sustained performance of the insurance, takaful and retakaful sectors in 2007. Nevertheless, there is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 21 Investments

Level of Compliance: Need to be Improved

In September 2005, the BNM issued guidelines which cover a wide spectrum of the operations and administration of investment-linked business. Guidelines set out the minimum standards that must be observed by insurers with effect from December 1, 2005, including requirements on product design and pricing, fees and charges, management of funds, investment limits, and valuation of assets and liabilities. Nevertheless, there is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 22 Derivatives and similar commitments

Level of Compliance: Need to be Improved

There is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 23 Capital adequacy and solvency

Level of Compliance: Need to be Improved

Both the capital and solvency margin requirements have been fully implemented since the beginning of 2001, as stated in the 2007 study by Khanal. The Insurance Act allows the BNM to specify the manner in which assets backing the solvency margin of an insurer are invested. According to the BNM's 2007 Financial Stability and Payment Systems Report, capital and solvency positions of the insurance industry remained strong during 2007. Furthermore, the solvency position of the insurance industry strengthened further, with an aggregate solvency surplus of USD5.6 billion at the end of 2007. However, the available sources do not directly address Malaysia's compliance with this principle.

ICP 24 Intermediaries

Level of Compliance: Need to be Improved

Although insurance agents are not directly supervised by the BNM, as stated in its 2005 Insurance Annual Report, they are required to be registered under the Insurance Act. At the end of 2005, per the same report, there were 126,898 registered insurance agents, a 3.3 percent decrease from the previous year. The number of life insurance intermediaries also decreased by 4.5% to 78,810. Initiatives in the area of market conduct, per the same report, were focused along enhancing the financial capabilities of consumers, improving product disclosures, and strengthening enforcement. Nevertheless, there is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 25 Consumer protection

Level of Compliance: Need to be Improved

In order to enhance consumer protection in the insurance industry, the 1996 Insurance Act and 1996 Insurance Regulations were amended in 2005 to establish the regulatory framework for the licensing of financial advisers. As of 2005, according to the BNM's 2005 Insurance Annual Report, 16 of the 31 recommendations of the FSMP were implemented, and were directed, inter alia, towards strengthening consumer protection and supervisory framework. Nevertheless, there is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 26 Information, disclosure & transparency towards the market**Level of Compliance: Need to be Improved**

There is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 27 Fraud**Level of Compliance: Need to be Improved**

With respect to insurance fraud, the BNM, as stated in its 2005 Insurance Annual Report, collaborates with the insurance industry and relevant law enforcement agencies through various initiatives under the anti-fraud joint committees. A fraud surveillance system has also been implemented to monitor incidences of fraud. Nevertheless, there is insufficient information publicly available clearly identifying Malaysia's compliance with this principle.

ICP 28 Anti-money laundering/ Combating the Financing of Terrorism**Level of Compliance: Need to be Improved**

The BNM has been appointed by the Minister of Finance as the competent authority for administering the 2001 Law on anti-money laundering (AML) and combating the financing of terrorism (CFT). Greater emphasis was given by the BNM to the assessment of AML/CFT measures taken by the supervised entities, as noted in the BNM's 2005 Insurance Annual Report. The BNM namely undertook a review of the adequacy of AML/CFT measures in the areas of quality of board and senior management oversight, comprehensiveness of policies and procedures, effectiveness of internal controls, and adequacy and accuracy of the management. While Malaysia's offshore financial center on the island of Labuan has different regulations for the establishment and operation of offshore businesses, offshore insurance companies are required to file suspicious transaction reports under the country's AML/CFT Law. The Labuan Offshore Financial Services Authority, which works closely with the BNM under the authority of the Ministry of Finance, licenses offshore insurance companies, and performs stringent background checks before granting an offshore license. An on-site visit by the Asia/Pacific Group on Money Laundering for the Mutual Evaluation of Malaysia took place from January 29-February 9, 2007. However, the available sources do not directly address Malaysia's compliance with this principle.

ANNEX

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http://www.buyusainfo.net/docs/x_8631291.pdf

Relevant Organizations

ASEAN Insurance Training and Research Institute (AITRI)

<http://www.aitri.org/cms/>

Association of Southeast Asian Nations (ASEAN)

<http://www.aseansec.org/>

Central Bank of Malaysia - Bank Negara Malaysia (BNM)

<http://www.bnm.gov.my/>

General Insurance Association of Malaysia - Persatuan Insuran Am Malaysia (PIAM)

<http://www.piam.org.my/>

Labuan Offshore Financial Services Authority (LOFSA)

<http://www.lofsa.gov.my>

Life Insurance Association of Malaysia - Persatuan Insurans Hayat Malaysia (LIAM)

<http://www.liam.org.my>

Malaysian Institute of Certified Public Accountants (MICPA)

<http://www.micpa.com.my>

Ministry of Finance - Perbendaharaan Malaysia (MoF)

<http://www.treasury.gov.my/index.php?lang=eng>

Relevant Legislation/Regulation

Central Bank of Malaysia Act No. 519,1958 (last revised 1994)

<http://www.bnm.gov.my/index.php?ch=14&pg=17&ac=13&full=1>

Insurance Act No. 553, 1996

<http://www.bnm.gov.my/index.php?ch=14&pg=17&ac=545&full=1>

Insurance (Amendment) Act, 2005

<http://www.parlimen.gov.my/billindex/pdf/DR132005E.pdf>

Insurance Regulations, 1996

Insurance (Amendment) Regulations, 2005

Takaful Act No. 312, 1984

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Offshore Insurance Act No. 444, 1990

<http://www.lofsa.gov.my/lofsa5/legislation/OffshoreInsuranceAct1990.pdf>

Financial Sector Master Plan, 2001

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http://www.ifac.org/ComplianceAssessment/published_survey.php?MBID=MALA2

Office of the United States Trade Representative, "Malaysia: Trade Summary," 2008. Available from Office of the United States Trade Representative website. Accessed on July 25, 2008. (USTR 2008)

http://www.ustr.gov/assets/Document_Library/Reports_Publications/2008/2008_NTE_Report/asset_upload_file356_14651.pdf

Methodology

For a more thorough discussion of our methodology, please visit our website. Below you find an explanation of qualifying criteria for information used in eStandardsForum's standard reports as well as a definition of the Levels of Compliance.

Sources

Sources used in this report are information that is objective and freely available to the public that pertain to a country's compliance with the requirements of any given standard. The defining characteristics of eStandardsForum's sources are public availability and objectivity. For example, third-party assessments of a country will take precedence over self-assessments. Nevertheless, in the absence of third-party assessments, self-assessments form an important source of information.

Standard : Insurance Core Principles

Level of Compliance: Need to be Improved

Summary

The objective of the Financial System Strategy 2020 (FSS 2020) initiative launched by the Nigerian government is to reform the financial system in Nigeria in order to make the country the financial hub of Africa by the year 2020. A number of documents prepared for the 2007 conference on the implementation of the FSS 2020 pointed out that the insurance sector is the "weakest link" in the Nigerian financial system. Inadequate supervision and regulation, a negative image of the insurance sector, low awareness of the public, poor financial reporting, and weak management and technology were identified as the major challenges facing the industry. Y. Soladoye, in his presentation at the conference, outlined the main strategic objectives of the reforms in the insurance sector and pointed out the initiatives with a defined time frame designed to implement the objectives. The authorities plan to revise existing insurance laws in order to bring them in line with the "internationally recognized legal system" by 2010; introduce International Accounting Standards, best practices in corporate governance, and stringent solvency rules; and strengthen protection of policy holders, along with other measures. However, there is no information publicly available as to Nigeria's compliance with the Insurance Core Principles promulgated by the International Association of Insurance Supervisors.

General Overview

The Nigerian government has launched the Financial System Strategy 2020 (FSS 2020) initiative to reform its financial sector and make Nigeria the financial hub of Africa by the year 2020. The FSS 2020 involves significant reforms of the major sub-sectors of the financial system: the banking sector, capital markets, insurance, and pensions. In a 2007 speech, Remi Babalola, the Minister of State for Finance, announced that the Nigerian insurance industry faces many serious challenges. He pointed out that, in addition to inadequate supervision and regulation, the sector is plagued by issues of negative image, low awareness of the public, poor financial reporting, and weak management and technology.

Y. Soladoye, in his presentation at the June 2007 Conference on the FSS 2020, outlined the main strategic objectives of the reforms in the insurance sector which are as follows: (1) become the safest insurance market in Africa; (2) obtain a strong positive image of the insurance sector; (3) become the fastest growing market in Africa; (4) make the Nigerian insurance market the first choice in Africa; and (5) build a single West Africa insurance market. Further, Soladoye discussed the main initiatives with a defined time frame for implementation. These initiatives include, but are not limited to, the revision of existing insurance laws in order to bring them in line with internationally recognized legal standards by 2010; the introduction of International Accounting Standards, best practices in corporate governance, and stringent solvency rules; and the strengthening protection of policy holders.

Soladoye noted that the reform of Nigeria's insurance industry started in 2005 with the announcement of new capitalization requirements for insurance companies. This led to the consolidation of the industry and 71 companies were recertified in February 2007. These recertified entities were verified by a Technical Committee (comprising technocrats, representatives from the insurance industry and the NAICOM commissioner) set up for the verification process and to advise on the reform of the National Commission of Insurance (NAICOM) - the Nigerian insurance regulator. In his 2007 speech, Finance Minister Babalola noted that the release of the report by the Technical Committee was a "defining" moment for the sector, stating that it would form the basis for further reforms in line with FSS 2020. The minister announced: "At the end of the day, we are going to have an Insurance sector that will actually have its own share in the FSS 2020."

The main laws and guidelines governing the insurance sector include the National Insurance Commission (NAICOM) Act of 1997, the Insurance Act of 2003, and the Consolidation and Recapitalization Guidelines of 2005. NAICOM was established in 1997 by the NAICOM Act of 1997, thus replacing the Nigerian Insurance Supervisory Board (NISB). The NAICOM reports to the Federal Ministry of Finance (FMF) and its main functions include supervision, regulation and control of insurance business in Nigeria. According to the FMF website, NAICOM sets standards for the conduct of insurance business, protection of policy-holders, approves rates of insurance premiums and also advises the federal government on all insurance related matters. NAICOM is also responsible for ensuring adequate capitalization in the industry.

According to Soladoye, the Nigerian insurance industry's contribution to the GDP is a mere .32 per cent. Furthermore, the annual gross premium income in 2005 was N76.32 billion (\$587 million), and the industry is ranked 65th worldwide and 6th in Africa. As of 2007, there were 69 insurance and 2 reinsurance companies in Nigeria. Furthermore, Soladoye noted that FSS 2020 aims to make Nigeria the insurance market of "first choice" in Africa and attain the 15th position internationally in terms of premium generation by the year 2020. According to the International Association of Insurance Supervisors (IAIS) website, Nigeria is not a member of the IAIS.

Further information on compliance with the principles of this standard is provided below.

ICP 1 Conditions for effective insurance supervision

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 2 Supervisory objectives

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 3 Supervisory authority

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle. According to the FMF website, NAICOM is responsible for the administration, supervision, regulation and control of the business of insurance in Nigeria.

ICP 4 Supervisory process

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 5 Supervisory cooperation and information sharing

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 6 Licensing

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 7 Suitability of persons

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 8 Changes in control and portfolio transfers

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 9 Corporate governance

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 10 Internal control

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 11 Market analysis

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 12 Reporting to supervisors and off-site monitoring

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle. According to the World Bank's 2004 report, NAICOM regulates financial reporting practices of insurance companies under the Nigerian Insurance Act of 2003. The report further adds that audited financial statements are submitted within 6 months of the year end date to NAICOM and also published in newspapers. However, NAICOM does not have sufficient resources to enforce compliance with reporting requirements, concludes the report.

ICP 13 On-site inspection

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 14 Preventive and corrective measures

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 15 Enforcement or sanctions

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 16 Winding-up & exit from the market

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 17 Group-wide supervision

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 18 Risk assessment and management

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 19 Insurance activity

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 20 Liabilities

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 21 Investments

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 22 Derivatives and similar commitments

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 23 Capital adequacy and solvency

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle. As per the FMF website, the Nigerian government raised the capitalization thresholds of all insurance companies in 2005, and companies were recertified based on the new requirements in 2007.

ICP 24 Intermediaries

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle. According to the Narasawa state website, the insurance industry comprises life, non-life, and reinsurance firms. These firms mobilize long-term funds and act as financial intermediaries.

ICP 25 Consumer protection

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle. According to the FMF website, NAICOM is responsible for the protection of policy holders.

ICP 26 Information, disclosure & transparency towards the market

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 27 Fraud

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle.

ICP 28 Anti-money laundering/ Combating the Financing of Terrorism

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Nigeria's compliance with this principle. According to the 2007 U.S. Department of State (DoS) report, the Financial Action Task Force (FATF) placed Nigeria on its list of non-cooperative countries and territories in combating money laundering in June 2001. The DoS report notes, however, that the FATF conducted an evaluation of the reforms in the Nigerian anti-money laundering regime in May 2006 and recognized the progress Nigeria had made in implementing AML policies, namely the establishment of a financial intelligence unit and the progress on money laundering investigations, prosecution and convictions. As a result, the FATF removed Nigeria from the non-cooperative list in June 2006, but enhanced monitoring of the country's compliance efforts. The FATF announced that the formal monitoring process ended in June 2007.

ANNEX

Sources of Assessment

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Relevant Organizations

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<http://www.ciinigeria.com/>

Corporate Affairs Commission (CAC)

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Federal Ministry of Finance (FMF)

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National Insurance Commission Decree, 1997

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Methodology

For a more thorough discussion of our methodology, please visit our website. Below you find an explanation of qualifying criteria for information used in eStandardsForum's standard reports as well as a definition of the Levels of Compliance.

Sources

Sources used in this report are information that is objective and freely available to the public that pertain to a country's compliance with the requirements of any given standard. The defining characteristics of eStandardsForum's sources are public availability and objectivity. For example, third-party assessments of a country will take precedence over self-assessments. Nevertheless, in the absence of third-party assessments, self-assessments form an important source of information.

Standard : Insurance Core Principles

Level of Compliance: **Need to be Improved**

Summary

A 2004 Financial System Stability Assessment (FSSA) for Pakistan conducted by the International Monetary Fund (IMF) finds that the insurance sector suffers from a diffused and ineffective legal and regulatory framework. Despite considerable reforms in the country resulting in a more efficient financial system, the insurance sector has lagged behind. The FSSA, therefore, calls for further liberalization and consolidation of the insurance sector and development of the regulatory framework governing insurance supervision. Although the Insurance Ordinance of 2000 ushered in some reforms, the supervision of the insurance sector still does not follow the modern risk-based model. The FSSA recommends further clarification of the legal roles of the Securities and Exchange Commission of Pakistan (SECP), the insurance supervisor of Pakistan and the Ministry of Commerce, the oversight body for state-owned insurance enterprises. Also, greater capacity needs to be provided to the SECP to conduct on-site inspections and take prompt corrective action. A gradual dilution of the government ownership of public sector insurance and reinsurance companies is also advised by the FSSA. The 2007 Article IV consultation report of the IMF for Pakistan mentions a technical assistance project sponsored by the Monetary and Capital Markets Department of the IMF in March/April 2005 to develop the insurance sector in Pakistan. However, no updates on the implementation of the project could be found.

General Overview

A Financial System Stability Assessment (FSSA) for Pakistan conducted by the International Monetary Fund (IMF) in 2004 comments on considerable reforms in the financial sector and observes that they have resulted in "a sounder and more efficient financial system" (p. iii). However, it also notes that these reforms have not equally impacted the insurance sector, so that the "legal and regulatory authority for insurance and pensions is diffused and, in some respects, ineffective" (p. iii). The FSSA, therefore, calls for further liberalization and consolidation of the insurance sector and development of the regulatory framework governing insurance supervision. The FSSA notes that the Insurance Ordinance of 2000 "has introduced a number of laudable reforms, but has also omitted a number of elements that are key to a modern risk-based supervisory regime" (p. 17). Therefore, the legal roles of the Securities and Exchange Commission of Pakistan (SECP) and the Ministry of Commerce (MoC) still need clarification and the SECP needs to be provided the capacity to conduct on-site inspection and take prompt corrective action. The FSSA sees a consensus to retain the SECP as the overall regulator and supervisor of the insurance industry and the MoC as the oversight body for the state-owned insurance enterprises. The role of the state-owned insurance companies is also brought into question and the FSSA calls for equal treatment of the public sector State Life Insurance Corporation of Pakistan (SLIC) and the other insurance companies. A more desirable strategy, per the FSSA, would be for the government to withdraw from the

three public sector insurers, especially the National Insurance Company Limited (NICL) and also to limit its exposure to the Pakistan Reinsurance Company Limited by seeking private sector partnership. The 2007 IMF Article IV consultation report mentions a technical assistance project aimed at developing the insurance sector sponsored by the Monetary and Capital Markets Department of the IMF in March/April 2005. However, no updates on the actualization of the project could be found.

The SECP website mentions that the Insurance Division, housed within the SECP and responsible for insurance sector supervision and development in Pakistan, is headed by an Executive Director. The scope of its supervision includes life insurance companies, non-life companies, takaful (an Islamic concept of mutual insurance following the rules and regulations of Islamic law) insurers, insurance intermediaries, and other bodies associated with this sector, including the Insurance Association of Pakistan, Pakistan Insurance Institute and Pakistan Society of Actuaries. The SECP was created by the 1997 Securities and Exchange Commission of Pakistan Act to beneficially regulate the capital markets, and supervise and control the entities therein, the 2006-2007 annual report of the SECP states. Over time, the SECP was vested with the responsibility of regulating and supervising the insurance sector, Voluntary Pension Scheme, and the non-banking finance company (NBFC) sector to enable consolidated supervision of all these sectors. The SECP, per its annual report, "plays a fundamental role in maintaining the integrity and vitality of the capital markets, corporate, NBFC and insurance sectors and protecting the interests of investors" (p. 11). The SECP is listed as a member on the International Association of Insurance Supervisors website.

The SECP website further notes that the Insurance Division is comprised of the Life Insurance Wing, the General Insurance (Non-life) Wing, the Registration Wing, and the Research and Development Wing. The life and non-life wings supervise the respective sectors and monitor the supervised entities' compliance with the Insurance Ordinance, accounting and actuarial standards, and other regulatory and capital/solvency requirements. As the website mentions, the Life Insurance Wing "is initiating various reforms such as minimum actuarial valuation basis, market conduct, group insurance business, auditing standards and reinsurance criteria" in consultation with the industry.

Providing statistics on the insurance sector in Pakistan, the 2006-2007 annual report of the SECP states that as of June 2007, there were 50 insurance companies, of which 46 were non-life and 4 were life insurance companies. In addition, there were 2 general takaful companies. The largest insurance company is still the state-owned SLIC with 70 percent of the life insurance market; however, it is losing its share over the years. The NICL is also a state-owned corporation and it has the exclusive right to insure all public property and interests. The report further notes that insurance density and penetration in Pakistan is considerably lower than in other countries of the region, including India, Sri Lanka and Iran. In 2006, insurance density stood at USD5.65, while insurance penetration was 0.73 percent. The annual report enumerates the reasons behind this situation. They include "lack of awareness, low literacy rate; lack of importance the individuals give to insurance and the belief amongst substantive portion of the population that insurance is un-Islamic" (p. 106). However, the report does note that the industry has achieved remarkable growth in the previous few years (almost 26 percent in 2005 and 21 percent in 2006).

Further information on compliance with the principles of this standard is provided below.

ICP 1 Conditions for effective insurance supervision

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 2 Supervisory objectives

Level of Compliance: Need to be Improved

The Insurance Division of the SECP states its objective on the SECP website as follows: "to ensure protection of the interests of insurance policyholders and to promote sound development of the insurance industry." The 2004 IMF FSSA also notes that the SECP - as the joint securities and insurance supervisor of Pakistan - has clear and objectively stated regulatory responsibilities, set out in the law. Nevertheless, there is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 3 Supervisory authority

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle. The SECP is the insurance regulator and supervisor of Pakistan. As the 2004 IMF FSSA finds, the SECP has "extensive powers to monitor market institutions and market practice" (p. 37) and these powers are adequate to effectively discharge its functions. However, the FSSA could not determine whether its resources and capacity were adequate to fully discharge its responsibilities. Nevertheless, the SECP is operationally independent and accountable in the exercise of its powers and responsibilities. The SECP's power to conduct on-site inspections of supervised entities was called into question by the FSSA, which noted that such inspections are only conducted when there are indications of malpractice. As such, the FSSA advises the SECP to undertake a formal review of its capacity to conduct regular on-site inspections, chalk out a formal plan for its monitoring and surveillance work, allocate appropriate staff for the function, and assess its performance on an annual basis.

ICP 4 Supervisory process

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle. As the 2004 IMF FSSA observes, broadly speaking, the SECP "adopts clear and consistent regulatory processes" (p. 37). However, there is room for improvement and the FSSA recommends the SECP to review its regulatory processes to make them clearer and more consistent, as also to issue useful guidance notes and policy statements to assist market participants in their interaction with the SECP.

ICP 5 Supervisory cooperation and information sharing

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle. The SECP "has wide powers to share both public and non-public information in its possession with domestic and foreign counterparts" (p. 38), notes the 2004 IMF FSSA. However, it has not yet set up formal mechanisms to share non-public information, especially with foreign regulators. Also, the SECP does not have the authority to conduct specific inspections to gather information requested by its foreign counterparts, though it can share information in its possession from regular inspections. The FSSA, therefore, advises the SECP to formalize its information sharing arrangements with foreign regulators at the earliest, and also gain the necessary legal power to conduct inspections and investigations at the request of its foreign counterparts. The 2006-2007 annual report of the SECP mentions that the SECP has signed Memoranda of Understanding (MoUs) with other domestic and foreign regulators for mutual cooperation. They include the State Bank of Pakistan (SBP) domestically, and among foreign regulators, they include the Australian Securities and Investments Commission, Maldives Monetary Authority, Securities and Exchange Commission of Sri Lanka, Royal Monetary

Authority of Bhutan, and also with the International Finance Corporation on launching a corporate governance project.

ICP 6 Licensing

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle. The SECP website states that the Registration Wing within the Insurance Division of the SECP is responsible for registering new insurance companies, insurance brokers and surveyors and collecting annual supervision fees from them.

ICP 7 Suitability of persons

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 8 Changes in control and portfolio transfers

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 9 Corporate governance

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 10 Internal control

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 11 Market analysis

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 12 Reporting to supervisors and off-site monitoring

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle. Per the 2004 IMF FSSA, "accounting and auditing standards are of a high and internationally acceptable quality" (p. 38). According to a 2007 Institute of Chartered Accountants of Pakistan (ICAP) presentation, accounting standards adopted by the ICAP would be applicable in accordance with the three tiers of corporate entities. Tier one companies comprising public interest entities must comply with International Financial Reporting Standards (IFRSs) by 2009. They include listed companies and large companies that meet certain size criteria. Further, the ICAP has adopted all but IFRS 1 relating to first-time adoption of IFRSs and IFRS 4 relating to Insurance Contracts. According to the ICAP presentation, the ICAP Insurance Committee is actively deliberating on the adoption of IFRS 4. A few other international standards, although adopted, are pending approval of the SECP. Earlier, in a 2005 Report on the Observance of Standards and Codes (ROSC) on accounting and auditing in Pakistan, the World Bank commended Pakistan for making progress in aligning national accounting requirements with IFRSs. Nonetheless, the ROSC as well as the ICAP presentation identify certain hindrances to the full adoption of international standards. For instance, IAS 39 and IAS 40 have been held in abeyance by the SBP due to resistance to adoption. Other shortcomings observed by the ROSC include inadequacies in the

technical capabilities of regulators, lack of implementation guidance for accounting and auditing practices, and weak professional training and education. With regard to the legal framework, the ROSC points out that the 2000 Insurance Ordinance lays down primary requirements for financial reporting of all insurance companies incorporated in Pakistan. The Ordinance mandates the SECP to monitor and enforce the accounting and auditing requirements of insurance companies. Under the Securities and Exchange Commission of Pakistan Act, the SECP also issues listing requirements that specify disclosures applicable to listed entities.

ICP 13 On-site inspection

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 14 Preventive and corrective measures

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 15 Enforcement or sanctions

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 16 Winding-up & exit from the market

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 17 Group-wide supervision

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 18 Risk assessment and management

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 19 Insurance activity

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 20 Liabilities

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 21 Investments

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 22 Derivatives and similar commitments

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 23 Capital adequacy and solvency

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 24 Intermediaries

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 25 Consumer protection

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 26 Information, disclosure & transparency towards the market

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 27 Fraud

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle.

ICP 28 Anti-money laundering/ Combating the Financing of Terrorism

Level of Compliance: Need to be Improved

There is insufficient information publicly available as to Pakistan's compliance with this principle. Per the 2004 IMF FSSA, there are no laws "specifically and comprehensively" (p. 31) addressing money laundering and terrorist financing. However, Pakistan is working on a draft law that promises to comprehensively define money laundering and incorporate international best practices in the areas of money/laundrying and terrorist financing, avers the FSSA. On suspicious transaction reporting, the 2008 U.S. Department of State (DoS) report observes that the Anti-Money Laundering Ordinance promulgated in 2007 stipulates money laundering suspicious transaction reports (STRs). However, the report cites two key inadequacies of the Anti-Money Laundering Ordinance. For example, "the definition of what constitutes a suspicious transaction is not adequate as it does not cover cases where an individual 'suspects' or 'has reason to suspect' that funds are the proceeds of criminal activity." Also, the Anti-Money Laundering Ordinance does not require the filing of STRs concerning terrorist financing. According to the 2008 U.S. DoS report, "the Securities and Exchange Commission of Pakistan (SECP), which has regulatory oversight for non-bank financial institutions, has also applied 'know your customer' regulations to stock exchanges, trusts, and other non-bank financial institutions."

According to the 2008 U.S. DoS report, the Anti-Money Laundering Ordinance of 2007 created the Financial Monitoring Unit (FMU) to perform the typical duties of a financial intelligence unit (FIU), namely to collect, analyze and disseminate

all STRs submitted by entities subject to the Anti-Money Laundering Ordinance. The report primarily attributes the relative paucity and limited utilization of STRs to Pakistan's lack of a central repository for the reporting of STRs. The U.S. DoS report notes other important weaknesses regarding Pakistan's FIU regime, primarily that the FMU's independence and effectiveness is undermined by the fact that it is subject to the oversight and control of the Pakistan's General Committee, which is comprised of Government of Pakistan cabinet secretaries (the FMU is located within the SBP). Additionally, the report notes that the FMU is not fully staffed and its investigators have yet to be sufficiently trained. In its 2007 Article IV consultation report, the IMF states that Pakistani authorities are currently working on making the FMU fully operational and more independent. As at the preparation of this report in August 2008, it is not clear what the results of these plans are. The SBP and the SECP serve as Pakistan's primary financial regulators, and both are equipped with AML units even though, according to the U.S. DoS report, these units "often lack defined jurisdiction and adequate resources to effectively supervise the financial sector on AML/CTF [anti-money laundering/combating the financing of terrorism] controls."

ANNEX

Sources of Assessment

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World Bank, "Pakistan: Report on the Observance of Codes and Standards - Accounting and Auditing," March 2005. Available from World Bank website. Accessed on September 3, 2008. (WB 2005)

http://www.worldbank.org/jfa/rosc_aa_pak.pdf

Relevant Organizations

Financial Monitoring Unit, State Bank of Pakistan (FMU)

Institute of Chartered Accountants of Pakistan (ICAP)

<http://www.icap.org.pk>

Insurance Association of Pakistan (IAP)

<http://www.iap.net.pk/>

Karachi Stock Exchange (Guarantee) Limited (KSE)

<http://www.kse.com.pk/>

Ministry of Commerce (MoC)

<http://www.commerce.gov.pk/>

Pakistan Insurance Corporation (PIC)

Pakistan Insurance Institute (PII)

Pakistan Society of Actuaries (PSOA)

<http://www.psoa.org.pk/>

Securities and Exchange Commission of Pakistan (SECP)

<http://www.secp.gov.pk/>

State Bank of Pakistan (SBP)

<http://www.sbp.org.pk>

Relevant Legislation/Regulation

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Securities and Exchange Commission of Pakistan website. Accessed on September 2, 2008. (SECP website)

http://www.secp.gov.pk/divisions/Portal_Insurance/insurance_about.asp

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Standard : Insurance Core Principles

Level of Compliance: **Intent Declared**

Summary

At the time of the European Commission's (EC) 2004 Report on Reinforcement of Institutional Capacity of Turkish Insurance Regulators, insurance supervision in Turkey was characterized by an "imperfect regulatory framework, causing ineffective enforcement of legislation and monitoring rules." In addition, prudential and accounting standards were not in line with European Union (EU) standards and international norms, as indicated by the EC's 2004 Report on Turkey's Progress Towards Accession. Momentum in the insurance supervisory and regulatory framework was recorded in Turkey through the adoption of a new accounting plan, and implementing legislation for insurance companies, as reported by the EC's 2005 Progress Report. Shortcomings remained with regards to coordination among insurance supervisory authorities, financial reporting, and prudential standards. In 2006, the adoption of relevant solvency legislation was a step in the right direction, according to the EC's 2006 Progress Report, but the alignment of Turkish insurance legislation with EU norms was still limited, and the Insurance Supervision Law was also outdated. While the previous EC Progress Reports criticized the Turkish insurance sector for having limited alignment, the EC's latest 2007 Progress Report on Turkey indicates for the first time that good progress has been made in the insurance supervisory and regulatory framework in Turkey. The EC states, however, that "limited progress has been recorded in terms of implementation and capacity building, which remain key issues." In addition, the insurance regulators - the General Directorate of Insurance and the Insurance Supervisory Board - lack independence and enforcement capacity. The International Monetary Fund's 2007 Financial System Stability Assessment expected the new Insurance Law No. 5684, which was adopted in June 2007, to bring the insurance regulatory framework more into line with international best practices.

General Overview

The insurance market in Turkey is regulated and supervised by two bodies within the Undersecretariat of the Treasury, namely the General Directorate of Insurance (GDI) and the Insurance Supervisory Board (ISB). Both entities were established under the Insurance Supervision Law No. 7397 of 1959. While the GDI is responsible for regulatory activities and off-site supervision, the ISB performs on-site monitoring. The GDI is a member of the International Association of Insurance Supervisors (IAIS).

At the time of the European Commission's (EC) 2004 Report on Reinforcement of Institutional Capacity of Turkish Insurance Regulators, insurance supervision in Turkey was characterized by an "imperfect regulatory framework that causes ineffective enforcement of legislation and monitoring rules" (p. 6). In addition, prudential and accounting

standards were not in line with European Union (EU) standards and international norms, as stated in the EC's 2004 Regular Report on Turkey's Progress Towards Accession. The EC's 2004 Report on Turkey's Progress Towards Accession recommended that the insurance authorities be "re-structured and substantially strengthened to meet the need for proper implementation of the legislation once it has been aligned" (p. 86). Some progress in the Turkish insurance supervisory and regulatory framework was reported by the EC's 2005 Progress Report, including the adoption of a new accounting plan, and implementing legislation for insurance companies. Shortcomings remained with regards to coordination among the insurance regulatory and supervisory authorities, financial reporting, and prudential standards. In 2006, the adoption of relevant solvency legislation was a step in the right direction, as stated in the EC's 2006 Progress Report, but the alignment of Turkish insurance legislation with norms in the EU was still limited. The Insurance Supervision Law was also outdated.

While the previous EC Progress Reports criticized the Turkish insurance sector for having limited alignment, the EC's latest 2007 Progress Report on Turkey indicates for the first time that good progress has been made in the insurance supervisory and regulatory framework in Turkey. Furthermore, the International Monetary Fund's (IMF) 2007 Financial System Stability Assessment of Turkey concludes that "the insurance regulatory framework, including risk-based capital requirements, has been modernized" (p. 27). The EC states, however, that "limited progress has been recorded in terms of implementation and capacity building, which remain key issues" (p. 8). The EC report further indicates that "no progress can be reported on the enforcement capacity and the independence of the [GDI] and the [ISB]" (p. 42). The IMF's 2007 assessment indicates that improvements are needed in the area of conglomerate supervision and market conduct. Better coordination is also warranted between the insurance supervisors in the area of licensing, on-site and offsite supervision, and enforcement. The European Bank for Reconstruction and Development's (EBRD) 2008 Strategic Review of Turkey specifies that the reform of the Turkish insurance sector would require the "establishment of effective laws and regulation in the insurance sector and convergence towards the core principles of the IAIS" (p. 47). It further recommends adopting the International Financial Reporting Standards (IFRSs).

In June 2007, the Turkish Parliament passed the new Insurance Law No. 5684, which governs the licensing and activities of insurance and reinsurance companies. It also establishes rules for insurance mediation, minimum capital requirements, fit and proper testing, direct licensing, and changes in control. The IMF's 2007 assessment expected the new Insurance Law to bring the insurance regulatory framework more in line with international best practices. As stated in a 2007 Insurance Market Review by Benfield, an independent reinsurance and risk intermediary, Turkey's efforts aimed at the harmonization of the Turkish insurance sector with the EU single insurance market will be enhanced with the planned adoption of the EU's "acquis communautaire" by 2014. Additional measures have been introduced to fully implement the EU's solvency requirements, as well as accounting rules based on IFRSs. Finally, the Insurance Monitoring System is an important step towards providing reliable data on the activities of the insurance sector.

The insurance market in Turkey is relatively small, concentrated, and governed by banks and multinational companies, as stated in the 2007 study by Benfield. Likewise, insurance penetration for Turkey is low. As a result of mergers and acquisitions in 2006-2007, inflow of foreign capital into the Turkish insurance sector significantly increased, with approximately one third of insurance companies in Turkey being foreign-owned. As of December 31, 2007, per the Association of the Insurance and Reinsurance Companies of Turkey's (TSRSB) 2007 Annual Report, there were 51 insurance companies in Turkey, including 29 non-life and 11 life insurers, and 1 reinsurance company. Total insurance premiums amounted to nearly USD7 billion, a 13.1 percent increase from the previous year. According to Benfield, the Turkish insurance market ranked 35th worldwide in terms of insurance premiums in 2006.

Further information on compliance with the principles of this standard is provided below.

ICP 1 Conditions for effective insurance supervision

Level of Compliance: Need to be Improved

The new Insurance Law No. 5684 was passed by the Turkish Parliament in June 2007. The Law governs the licensing and activities of insurance and reinsurance companies. It also establishes rules for insurance mediation, minimum capital requirements, fit and proper testing, direct licensing, and changes in control. The TSRSB's 2007 Annual Report indicates that the new Insurance Law introduces an arbitration system aimed at the resolution of disputes "in a timely and inexpensive manner" (p. 3). According to the 2007 study by Benfield, Turkey's efforts aimed at the harmonization of the Turkish insurance sector with the EU single insurance market will be enhanced with the planned adoption of the EU's "acquis communautaire" by 2014. Additional measures have been introduced to fully implement the EU's solvency requirements, as well as accounting rules based on IFRSs. Finally, the Insurance Monitoring System is an important step towards providing reliable data on the activities of the insurance sector. Despite these advancements, the EC's 2007 Progress Report cites that "limited progress has been recorded in terms of implementation and capacity building, which remain key issues" (p. 8). The IMF's 2007 assessment expected the new Insurance Law to bring the insurance regulatory framework more in line with international best practices. Nonetheless, the available sources do not directly address Turkey's compliance with this principle.

ICP 2 Supervisory objectives

Level of Compliance: Need to be Improved

There is insufficient publicly available information to address Turkey's compliance with this principle.

ICP 3 Supervisory authority

Level of Compliance: Need to be Improved

The insurance market in Turkey is regulated and supervised by two bodies within the Undersecretariat of the Treasury, namely the GDI and the ISB. Both entities were established under the Insurance Supervision Law No. 7397 of 1959. While the GDI is responsible for regulatory activities and off-site supervision, the ISB performs on-site monitoring. Both authorities, however, lack independence and enforcement capacity according to the EC's 2007 Progress Report on Turkey. Despite the information provided above, the available sources do not directly address Turkey's compliance with this principle.

ICP 4 Supervisory process

Level of Compliance: Need to be Improved

There is insufficient publicly available information to address Turkey's compliance with this principle.

ICP 5 Supervisory cooperation and information sharing

Level of Compliance: Need to be Improved

The IMF's 2007 assessment stresses that better coordination is needed between the insurance supervisors in the area of licensing, on-site and offsite supervision, and enforcement. Nonetheless, there is insufficient publicly available information to address Turkey's compliance with this principle.

ICP 6 Licensing

Level of Compliance: Need to be Improved

The new Insurance Law No. 5684, adopted in June 2007, governs the licensing and activities of insurance and reinsurance companies, as stated in the IMF's 2007 assessment. It also establishes rules for direct licensing. The IMF report recommends better coordination between the insurance supervisors in the area of licensing, on-site and offsite supervision, and enforcement. Nevertheless, the available sources do not directly address Turkey's compliance with this principle.

ICP 7 Suitability of persons

Level of Compliance: Need to be Improved

The new Insurance Law No. 5684, adopted in June 2007, establishes rules for fit and proper testing, as stated in the IMF's 2007 assessment. Nonetheless, there is insufficient publicly available information to address Turkey's compliance with this principle.

ICP 8 Changes in control and portfolio transfers

Level of Compliance: Need to be Improved

The new Insurance Law No. 5684, adopted in June 2007, establishes rules for changes in control, according to the IMF's 2007 assessment. Nonetheless, there is insufficient publicly available information to address Turkey's compliance with this principle.

ICP 9 Corporate governance

Level of Compliance: Need to be Improved

There is insufficient publicly available information to address Turkey's compliance with this principle.

ICP 10 Internal control

Level of Compliance: Need to be Improved

There is insufficient publicly available information to address Turkey's compliance with this principle.

ICP 11 Market analysis

Level of Compliance: Need to be Improved

There is insufficient publicly available information to address Turkey's compliance with this principle.

ICP 12 Reporting to supervisors and off-site monitoring

Level of Compliance: Need to be Improved

The GDI sets financial reporting standards for insurance companies. According to the World Bank's 2007 Report on the Observance of Standards and Codes on Accounting and Auditing, while financial reporting and auditing requirements applicable to insurance companies are generally based on IFRSs and International Standards on Auditing, "they have fallen short of these standards and have not always provided users of financial information, including regulators, with financial information reliable enough for decision-making purposes" (p. ii). The Turkish Accounting Standards Board, the Turkish Auditing Standards Board, and the GDI have been working to resolve this issue. Amendments to the Commercial Code in 2008 were expected to bring financial reporting requirements in Turkey closer to the international standards on corporate financial reporting. However, as of November 2008, the adoption of the Code was still pending. The IMF's 2007 assessment recommends better coordination between the insurance supervisors in the area of

licensing, on-site and offsite supervision, and enforcement. Nevertheless, the available sources do not directly address Turkey's compliance with this principle.

ICP 13 On-site inspection

Level of Compliance: Need to be Improved

There is insufficient publicly available information to address Turkey's compliance with this principle. Turkish authorities introduced an early warning system in 1997 "to identify financially weak companies and initiate on-site inspections and intervention action" (p. 27), as stated in the IMF's 2007 report. However, better coordination is needed between the insurance supervisors in the area of licensing, on-site and offsite supervision, and enforcement.

ICP 14 Preventive and corrective measures

Level of Compliance: Need to be Improved

As stated in the IMF's 2007 report, Turkish authorities introduced an early warning system in 1997 "to identify financially weak companies and initiate on-site inspections and intervention action" (p. 27). However, the available sources do not directly address Turkey's compliance with this principle.

ICP 15 Enforcement or sanctions

Level of Compliance: Need to be Improved

According to the IMF's 2007 assessment, better coordination is warranted between the insurance supervisors in the area of licensing, on-site and offsite supervision, and enforcement. Nonetheless, there is insufficient publicly available information to address Turkey's compliance with this principle.

ICP 16 Winding-up & exit from the market

Level of Compliance: Need to be Improved

There is insufficient publicly available information to address Turkey's compliance with this principle.

ICP 17 Group-wide supervision

Level of Compliance: Need to be Improved

Most insurance companies in Turkey are bank affiliates, as stated in the IMF's 2007 assessment, leading to the creation of bancassurance groups. Foreign companies have also increased their presence in the Turkish insurance market, with approximately one third of insurance companies in Turkey being foreign-owned. According to the EC's 2006 Progress Report, Turkey lacks specific legislation regarding the supervision of insurance groups. The IMF report stresses that improvements are needed in the area of conglomerate supervision.

ICP 18 Risk assessment and management

Level of Compliance: Need to be Improved

There is insufficient publicly available information to address Turkey's compliance with this principle.

ICP 19 Insurance activity

Level of Compliance: Need to be Improved

There is insufficient publicly available information to address Turkey's compliance with this principle. Milli Re is the only national operating reinsurance company in Turkey. The IMF's 2007 assessment notes that "reinsurance is mostly used for large risks" (p. 70). According to the EC's 2006 Progress Report, Turkey lacks specific legislation regarding the

supervision of reinsurance.

ICP 20 Liabilities

Level of Compliance: Need to be Improved

There is insufficient publicly available information to address Turkey's compliance with this principle.

ICP 21 Investments

Level of Compliance: Need to be Improved

There is insufficient publicly available information to address Turkey's compliance with this principle.

ICP 22 Derivatives and similar commitments

Level of Compliance: Need to be Improved

There is insufficient publicly available information to address Turkey's compliance with this principle.

ICP 23 Capital adequacy and solvency

Level of Compliance: Need to be Improved

The new Insurance Law No. 5684, adopted in June 2007, establishes rules for minimum capital requirements, as stated in the IMF's 2007 assessment. In 2008, the Law on the Measurement and Evaluation of the Capital Requirements of Insurance, Reinsurance and Private Pension Companies No. 26117 entered into force to provide a new solvency regime for insurance and reinsurance companies. The Law is based on the EU Solvency I framework, but also incorporates the EU Solvency II proposals. The EC's website disclosed that the Commission had adopted the Solvency II Proposal in July 2007 and the text is currently being discussed at the Council and Parliament. Solvency II is based on a three pillar approach that covers quantitative and qualitative requirements, as well as supervisory reporting and disclosure. However, the available sources do not directly address Turkey's compliance with this principle.

ICP 24 Intermediaries

Level of Compliance: Need to be Improved

The new Insurance Law No. 5684, adopted in June 2007, establishes rules for insurance mediation, as stated in the IMF's 2007 assessment. Pursuant to the Law Regarding the Supervision of Insurance Companies No. 7397, as stated on the website of the Turkish Embassy in London, insurance agents have legal rights to sell insurance policies or to represent insurance companies in some activities. Conversely, insurance brokers are authorized by the Undersecretariat of the Treasury to conduct business. As of May 2008, there were 67 insurance brokers in Turkey. The IMF's 2007 assessment notes that while insurance brokers play an important role in insuring large risks, agents dominate the insurance distribution channels. Nevertheless, the available sources do not directly address Turkey's compliance with this principle.

ICP 25 Consumer protection

Level of Compliance: Need to be Improved

The new Insurance Law No. 5684, adopted in June 2007 establishes rules for insurance mediation, according to the IMF's 2007 assessment. The IMF report stresses that improvements are needed in the area of market conduct. Nonetheless, there is insufficient publicly available information to address Turkey's compliance with this principle.

ICP 26 Information, disclosure & transparency towards the market

Level of Compliance: Need to be Improved

There is insufficient publicly available information to address Turkey's compliance with this principle.

ICP 27 Fraud

Level of Compliance: Need to be Improved

There is insufficient publicly available information to address Turkey's compliance with this principle.

ICP 28 Anti-money laundering/ Combating the Financing of Terrorism

Level of Compliance: Need to be Improved

Money laundering was first criminalized in Turkey in 1996, according to the U.S. Department of State (DoS) 2008 International Narcotics Control Strategy Report. In June 2005, Turkish authorities enacted both the Criminal Code No. 5237 and the Code on Criminal Procedure No. 5271. The Law on the Prevention of Laundering Proceeds of Crime No. 5549, which was implemented in October 2006, expanded the range of entities subject to reporting requirements to include insurance companies. Finally, the Regulation on Measures on Prevention of Laundering of Proceeds of Crime and Financing of Terrorism No. 26751, based on the Law No. 5549, entered into force in 2008 to broaden the implementation scope of "know your customer principles." The Financial Crimes Investigation Board (MASAK) - Turkey's Financial Intelligence Unit - was established under the Ministry of Finance in 1996, and became operational in 1997. The U.S. DoS's 2008 report recommends that Turkey adopt a risk-based approach to anti-money laundering and combating the financing of terrorism. In addition, supervision and regulation of insurance companies needs to be enhanced. Turkey is a member of the Financial Action Task Force. However, the available sources do not directly address Turkey's compliance with this principle.

ANNEX

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Relevant Organizations

Association of the Insurance and Reinsurance Companies of Turkey - Türkiye Sigorta ve Reasurans Sirketleri Birliği (TSRSB)

<http://eng.tsrbs.org.tr/>

Financial Crimes Investigation Board - Mali Sular Aratrma Kurulu (MASAK)

<http://www.masak.gov.tr/en/index.htm>

General Directorate of Insurance - Sigortacilik Genel Mudurlugu (GDI)

<http://www.sigortacilik.gov.tr/>

Milli Re - Milli Reasurans

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Ministry of Finance - Maliye Bakanligi (MoF) (in Turkish only)

<http://www.maliye.gov.tr/>

Turkish Accounting Standards Board - Turkiye Muhasebe Standartlari Kurulu (TMSK)

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Law on the Prevention of Laundering Proceeds of Crime No. 5549, 2006

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Methodology

For a more thorough discussion of our methodology, please visit our website. Below you find an explanation of qualifying criteria for information used in eStandardsForum's standard reports as well as a definition of the Levels of Compliance.

Sources

Sources used in this report are information that is objective and freely available to the public that pertain to a country's compliance with the requirements of any given standard. The defining characteristics of eStandardsForum's sources are public availability and objectivity. For example, third-party assessments of a country will take precedence over self-assessments. Nevertheless, in the absence of third-party assessments, self-assessments form an important source of information.