INSURANCE SUPERVISION DEPARTMENT

GUIDE TO INTERVENTION

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INSURANCE SUPERVISION DEPARTMENT – BANK OF GUYANA

Bank of Guyana
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Introduction

The objective of the Guide to Intervention ("the Guide") is to enable stakeholders, and particularly insurance companies licensed in Guyana, to understand:

- the main pillars of the Bank's Insurance Supervisory Framework, including the nature of the risk assessment process which, over time, will lead to a risk rating for each insurer;
- the risk characteristics that will generally typify an insurer at each risk level;
- the types of interventions that can typically be expected from the Bank at each risk level.

As context when interpreting the Guide to Intervention, the following points are important to keep in mind:

- The Bank recognises that any intervention action must be efficient and effective, and it must be implemented expeditiously to maintain confidence in the system and minimise losses to policyholders.
- Potential Bank interventions mentioned in the Guide are illustrative and not exhaustive. In other words, interventions will be crafted to fit the particular circumstances rather than being selected on the basis of a simple "A leads to B" type table. Nevertheless, the examples in the Guide should serve to illustrate the basis on which the system will operate.

The Bank is required, as part of its mandate, to ensure that insurers comply with the solvency provisions applicable to them as well as with the obligations imposed on them by law for the purpose of protecting the interests of consumers of insurance products and services. In this regard the Bank is responsible for regulating and monitoring insurers and intervening in their affairs in the event that an insurer fails to operate in accordance with sound and prudent management practices, sound commercial practices or if its solvency is threatened or seriously compromised.

In administering the Guide, and in line with subsection 7(b) of the Insurance Act 2016, the Bank will "oversee the activities of the insurance industry and generally monitor risk levels within companies and across the industry as a whole, taking actions or recommending actions in accordance with the provisions of this Act which are designed to reduce risk where it is deemed to have reached levels which may be prejudicial to the interests of policyholders or the general public."

The Bank will consider as its source material for recommendations and actions, any measures identified by law for the purposes just outlined.

Supervisory Framework

To minimise the risk of insurer insolvency, the Bank has established a Supervisory Framework which is available for review on the Bank's web site at www.bankofguyana.org.gy

The Framework explains the consistent and formally documented processes that the Bank will employ to establish a risk level rating for each insurer. The 5 main steps that comprise the risk assessment process are outlined below. (If the insurer is engaged in any significant activities apart from the "normal" business of insurance, then the assessment process will be separately applied to each significant activity.)

1. Identify and assess the General insurer's inherent risks;
2. Evaluate the insurer's quality of risk management (QRM);
3. Evaluate the net risk of the insurer by taking account of the extent to which the company's QRM will reduce the overall inherent risk of the insurer;
4. Analyse the insurer's financial strength and overall business operations; and
5. Establish the insurer's Composite Risk Rating.

In assessing the insurer's financial strength under Step 4, the Bank will make use of internationally accepted financial ratios but will also give considerable weight to the company's position with regard to the minimum solvency and control levels for solvency as shall from time to time be prescribed by regulation.

The Composite Risk Rating is the primary input with regard to assignment of the appropriate intervention stage.

Guide to Intervention

Risk Stage	Typical Supervisory Actions
Stage 1: No Significant Problems No indication of significant developing problems. Overall risk for the insurer, including the impact of capital strength, quality of earnings and liquidity are such that the company should be resilient to normal adverse business and economic conditions.	On-going monitoring of company by reviewing periodic financial filings; occasional telephone conversations with company officers; occasional meeting with the board of directors. Periodic on-site reviews at the lowest frequency permitted by the Insurance Act.
Stage 2: Serious Emerging Issues Warning signs are starting to appear. These could be by way of deteriorating trends in internationally accepted financial ratios, other trends in financial parameters or as a result of observations of the risk assessment team during their on-site visits. As an example of the latter, the company has recently been found to be out of compliance with certain important requirements of the Bank of Guyana, where issues had not previously existed. Or, the company's CEO has resigned and the new appointee has brought in a new team whose members do not have experience in the insurance industry. As an example of deterioration of a financial parameter, after a number of years with satisfactory underwriting results, in the most recent year the company has sustained a substantial underwriting loss in a recently entered line of business. Another example: the company has recently begun writing Motor business in a neighbouring country and the volume of that business is expanding rapidly, while at the same time its solvency margin is showing a decreasing trend. Or, the company's solvency margin has declined in the most recent year and is moving towards the range that is considered to be a significant concern by the Bank of Guyana.	A business plan is requested to show how the emerging issues are to be remedied. If the Bank is of the view that the plan is inadequate, a modified plan will be requested. The plan will be monitored closely to see that progress is being made. If satisfactory progress is not being demonstrated over time, officers from the Insurance Supervisory Department of the Bank will likely want to meet with senior management or the board as a whole, to discuss the nature of the concerns and to advocate that the insurer take more vigorous action to deal with the issues. Additional interventions could involve more frequent on-site visits to observe and monitor developments, or more frequent financial reporting or more detailed reporting with regard to certain elements of the business. If progress is still not in evidence and the insurer is doing business in other jurisdictions, other supervisory agencies may be made aware of the developing trend. As the insurer approaches the transition to Level 3 risk, the Bank may consider it necessary to implement more directed forms of intervention, such as requiring an increase the equity base of the company or constraining the company's business in specific ways.

Risk Stage	Typical Supervisory Actions
Stage 3: Significant Risk No longer emerging issues, the company now exhibits circumstances which could bring its viability into question if not addressed in a timely and effective manner. A prime example would be where the company's solvency position has deteriorated to the point where it falls into the Bank's "significant concern" control range.	Concurrent with other actions being taken by the Bank, Bank officers are likely to meet with the board to make it clear that an effective time-bound plan to remedy the company's problems is urgently required. Depending on the nature of the increasing risks, additional directed intervention will probably also be necessary. For example, if the company is expanding too rapidly, it could be required to substantially slow its rate of business growth. Even stronger, the company could be prevented from writing certain lines of business or prevented from selling particular products which are seen to be contributing to its financial difficulties. The Bank may require outside professionals to review certain aspects of the company's operations, e.g. an independent auditor might be required to review the company's financial reporting system, or an actuarial firm might be retained to review the adequacy of the company's technical provisions. In assessing the company's capital adequacy, the Bank might find it necessary to obtain independent confirmation of various asset valuations, possibly leading to adjustments to the capital adequacy position. Shareholders may be told that they must inject additional capital.
Stage 4: Unacceptable Risk – Insolvency Imminent	At Level 4 the situation has deteriorated to the point where only a significant injection of capital is likely to save the company from actually failing. A Level 4 risk level cannot be allowed to persist and so a relatively short time horizon will likely be specified by the Bank with respect to the injection of new capital, either by existing shareholders or by new shareholders. The Bank will likely be making arrangements for the steps that will have to be urgently implemented if the company's licence is revoked and liquidation-type actions have to be commenced.