



September 9, 2013

To: Chief Executive Officer, Principal Representatives and Resident Representatives of Insurance Companies

RE: Risk Based Supervision Framework

The Commission is pleased to formally introduce our Supervisory framework. The following documents have been posted to our website (icb.gov.bs) under policies and guidelines section for industry-wide review and consultation:

1. **The Risk Based Supervision Framework** - The Supervisory Framework is the risk-focused methodology designed to facilitate assessment of insurers regulated by the Commission.
2. **Risk Based Assessment Criteria** - The Assessment Criteria is intended to serve as a guide to insurance company management and boards and to the Commission in carrying out its assessment. The criteria are based on international best practices and have taken into consideration the nature of the insurance market in The Bahamas.

Assessment Criteria have been provided for the following functions:

- i. Board of Directors
- ii. Senior Management
- iii. Internal Audit
- iv. Compliance
- v. Actuary
- vi. External Audit

We encourage you to share these documents broadly within the functions noted above.

Furthermore, to promote awareness and enhance transparency of the Commission's intervention process, we have also posted on our web-site the Commission's **Ladder of Supervisory Intervention** which sets out our core supervisory activities and provides the framework for remedial supervisory intervention. This document will work in tandem with the Risk Based Framework and Assessment Criteria as it focuses on identifying areas of concern at an early stage and intervening effectively in order to minimize losses to policyholders and other creditors of insurance companies.

These documents form the core of our supervisory methodology. However, further guidance will be provided as necessary and the Framework will be revised and enhanced to keep up with evolving industry and regulatory developments.

Implementation of Risk Based Supervision

Since its inception the Commission has been developing, piloting and implementing various parts of its Risk Based Supervision Framework. In the later part of 2010 the Commission commenced phase 1 of its risk based supervision framework, which focused on enhancing offsite monitoring and building the supervisor's knowledge of insurers' business. The Commission carried out peer group analysis, conducted quarterly prudential meetings and performed limited-scope on-site examinations. In late 2012, the Commission commenced its program of focused on-site examinations.

In 2012, the Commission documented its Risk Based Supervision Framework Methodology. The Framework is based on international standards and adapts the approach used by many regulators around the world, customizing as appropriate to suit The Bahamas' insurance market. The Risk Based Supervision framework represents an integrated system of continuous supervision consisting of off-site monitoring and on-site examination designed to assess the risk profile, corporate governance and risk management practices of insurance companies. The Framework outlines the methodology that the Commission's supervisors follow in assessing the risk profile of insurance companies.

Our risk assessment examines four broad areas of the insurer's risk profile namely:

- inherent business risks,
- operational management,
- financial management, and
- corporate governance and oversight.

The insurer's risk profile and capital together provide an overall assessment of safety and soundness of the insurer. Through the assessment of the risk associated with an insurers significant activities and the effectiveness of its internal control environment, corporate governance and oversight functions, the Commission is able to:

- a) focus supervision resources primarily on those operations and business lines of greater risk to insurer,
- b) more accurately assess individual firms' risk profile, on an ongoing basis, in order to facilitate a prompt and timely response to emerging problems, and
- c) promote good risk management and corporate governance practices in the industry.

Assessing risk management and corporate governance practices for insurers is a critical component of determining the insurer's overall risk profile. Good corporate governance

is crucial to safety and soundness of insurers and a major part of our framework will be focused on assessing the effectiveness of senior management, the Board of Directors and other oversight functions. Thus, the Commission has developed Assessment Criteria for the Board, Senior Management and other risk management functions.

Industry Briefing

We will be hosting an industry briefing on September 25, 2013 to discuss our Risk Based Supervisory Framework further with our licensees. The briefing will be held at the British Hilton Colonial from 10:00 a.m. to 11:30 a.m. Please confirm your attendance to Anishka Russell (arussell@icb.gov.bs) by September 16, 2013.

Comments and questions regarding the Risk Based Supervision Framework and Assessment Criteria are welcome and should be submitted by e-mail to policies@icb.gov.bs by November 30, 2013.

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