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Jersey: Financial Sector Assessment Program Update—Detailed Assessment of Observance of the Insurance Core Principles

This Detailed Assessment of Observance of the Insurance Core Principles Report on **Jersey** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed in May 2009. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Jersey or the Executive Board of the IMF.

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FINANCIAL SECTOR ASSESSMENT PROGRAM UPDATE

JERSEY

INSURANCE CORE PRINCIPLES

DETAILED ASSESSMENT OF OBSERVANCE

MAY 2009

INTERNATIONAL MONETARY FUND
MONETARY AND CAPITAL MARKETS DEPARTMENT

Contents

GLOSSARY

AML/CFT	Anti-money laundering and combating the financing of terrorism
Companies Law	Companies (Jersey) Law 1991
EU	European Union
FATF	Financial action task force on money laundering
FIU	Financial intelligence unit
FS(J)L	Financial Services (Jersey) Law 1998
FSC(J)L	Financial Services Commission (Jersey) Law 1998
GAAP	Generally Accepted Accounting Principles
GAD	United Kingdom Actuary Department
General Provisions Order	Insurance Business (General Provisions) (Jersey) Order 1996
GIMB Codes	Codes of practice for general insurance mediation business
IAIS	International Association of Insurance Supervisors
IB Codes	Codes of practice for investment business
IB(J)L	Insurance Business (Jersey) Law 1996
ICP	Insurance core principles
IFRS	International Financial Reporting Standards
Insurance Codes	Codes of practice for insurance business
JFSC	Jersey Financial Services Commission
MIB	Motor Insurers Bureau of the United Kingdom
ML(J)O	Money Laundering (Jersey) Order 208
MOU	Memorandum of understanding
OFC	Offshore financial center
POB	Professional oversight board
The States	Jersey Parliament
UK	United Kingdom
USA	United States of America

I. Executive Summary, Key Findings, and Recommendations

Introduction

1. **This assessment of Jersey's compliance with the International Association of Insurance Supervisors (IAIS) Insurance Core Principles (ICPs) was carried out as part of the 2008 FSAP Update.** It updates and replaces the assessment conducted in 2002 (published in 2003) in the context of the Offshore Financial Center (OFC) assessment of the island. The assessor was Ian Tower of the IMF's Monetary and Capital Markets Department. The assessment is based on information available at the time of the November 2008 mission, updated to reflect documented regulatory and economic developments since then.

Information and methodology used for assessment

2. **The assessment was made based on information available in November 2008 at the time of the FSAP Update mission.** The authorities contributed a full self assessment and further information in response to a pre-mission questionnaire. Full documentation, including all relevant laws and regulations were supplied.

3. **The assessment took account of discussions with the Jersey Financial Services Commission (JFSC) in the course of the mission as well as meetings with government, insurance companies and managers of insurance companies, local representatives of the accountancy profession and a representative of a major audit practice.** The assessor is grateful for the full cooperation extended by all.

4. **The assessment was based on the 2003 version of the IAIS ICPs and Methodology.** It took into account relevant IAIS standards and guidance in addition to the ICPs. The assessment of ICP 28 (anti-money laundering, combating the financing of terrorism) has been informed by the IMF's assessment, also carried out in November 2008, of Jersey's compliance with the Financial Action Task Force's (FATF) anti-money laundering and combating the financing of terrorism (AML/CFT) standards, using the 2004 Methodology.

Institutional and market structure—overview

5. **The insurance sector in Jersey is underdeveloped, in relation to banking and investment business on the island and to the insurance sectors in Guernsey and the Isle of Man.** While the authorities have in the past sought to attract international insurance business (for example, captive insurers/managers and international life), other offshore centers developed their insurance sectors earlier and have achieved the critical mass and competitive position that Jersey lacks. A large number of insurers are licensed by the JFSC, but the majority undertakes business on a cross-border basis using brokers to access the market and with no physical presence in Jersey. Some of the companies established in the island are now closed to new business or are in the course of relocation. There are challenges

for the JFSC in regulating the diverse remaining business in both an effective and proportionate manner.

6. **The insurance business in Jersey is derived from three main sources:** (i) local businesses and individuals seeking cover for their property, motor, and household risks, as well as life assurance and pensions; (ii) trust and company service providers based on the island seeking cover for a range of mostly international risks such as property portfolios abroad; and (iii) the limited international business which the island has attracted. The main domestic insurance risks are property related with the international business focus being catastrophe and weather risks. Insurers of domestic risks seek reinsurance to cover them for a percentage of catastrophe losses.

7. **Other than the international business, most cover is obtained from insurers based overseas by the large insurance broker community on the island.** There is no data for overall market size. Based on discussions with local firms and consideration of the JFSC's data on brokerage income for general insurance business, the mission estimates that total annual general insurance premium flows may be around GBP 150 million.

8. **The JFSC grants two types of permit under the Insurance Business (Jersey) Law 1996 (IB(J)L):**

- **Category A—firms incorporated overseas and licensed to sell business in Jersey.** At end-September 2008 there were 172 such firms, of which 102 offered general insurance and 70 life. Only 3 firms have a physical presence on the island. Most Category A firms originate from the United Kingdom (UK) and other European Union (EU) jurisdictions, but there are also firms from South Africa and the United States of America (USA). The JFSC's approach, both on licensing and subsequent supervision, relies heavily on the home state regulator. Although it requires Category A firms to submit annual accounts and copies of the home regulatory returns, these documents do not include data from these firms on business originating in Jersey.

- **Category B—firms incorporated on the island.** There are only 14 such firms, of which 3 (2 life and 1 general) are closed to new business (1 is in liquidation) and a further 3 have yet to write new business. The remainder writes mostly specialist risks. Net retained insurance risk (i.e., after reinsurance) is low and the net premium income in 2007 of the Category B firms was less than GBP 4 million. Total assets of Category B firms are around GBP 800 million.

9. **The IB(J)L includes certain exemptions from the JFSC licensing, of which the most significant is the Jersey Mutual Insurance Society, which writes personal lines business for its members on a direct basis (i.e., without going through brokers).** Gross premium income was GBP 3.6 million in 2007 (net premium income was around GBP 1 million). The insurer is not subject to any other regulatory authority. Insurance business carried on by the association of underwriters known as Lloyd's is also exempt.

10. **The JFSC also licenses intermediaries—around 120 for general insurance (of which around half are primary brokers, whose main business is insurance—as opposed to travel agents and others who sell insurance in connection with their principal line of business) and 98 for life insurance.** All intermediaries are licensed and regulated under the Financial Services (Jersey) Law 1998 (FS(J)L) rather than the IB(J)L. General insurance broking has been licensed in Jersey since 2005.

11. **The JFSC is the sole regulator of insurance in Jersey.** However, for applications to carry on motor insurance business, additional authorization is required from the minister for transport and technical services under the motor traffic (Third Party Insurance) (Jersey) Law 1948. No company may be authorized unless it is a member of the Motor Insurers' Bureau (MIB) in the UK. In practice, the minister will not grant such authorization without assurance from the JFSC that it is prepared to issue an insurance permit and that membership of the MIB is held by the applicant.

12. **The JFSC is a statutory body corporate, established under Article 2 of the Financial Services Commission (Jersey) Law 1998 (FSC(J)L).** It consists of a chairman and at least six other commissioners (currently nine), appointed by Jersey Parliament (the States) on the nomination of the minister for economic development. By convention, members of the States are not appointed commissioners. Under the FSC(J)L, the composition of the JFSC Commissioners has to secure a balance between the interests of providers of financial services, the users of such services, and the interests of the public. Although the minister may give guidance or general directions to the JFSC—under Article 12 of the FSC(J)L, in relation to the policies of the States—this can only be of a general nature. The minister and the JFSC have signed a memorandum of understanding (MOU) covering Article 12, but to date the minister has given no guidance or directions. The JFSC has a total of 108 staff.

13. **There is no ombudsman (to adjudicate on customer complaints) and no policyholder compensation arrangements for insurance business on the island.** However, the IB(J)L provides for schemes for compensating policyholders to be established if needed. (The government's approach to consumer protection regulation and ombudsman services across all business on the island is under review and this may lead to changes in this area.)

14. **Constitutionally, Jersey is a dependency of the Crown, owing allegiance to the Sovereign, but without incorporation into the UK.** Jersey is self governing in internal matters. There are three main courts, the magistrate's court, the royal court, and the court of appeal. Any appeals beyond the court of appeal are to the UK Privy Council. The island has its own legislative assembly (the States).

15. **Jersey has its own companies legislation, but has no local accounting or actuarial standard setting bodies and it looks to other jurisdictions, especially the UK, for its framework of accounting, auditing, and actuarial standards:**

- Broadly, the Companies (Jersey) Law 1991 (Companies Law) requires auditors of companies in Jersey to be members of a professional body in the UK or Ireland.

- Financial statements of insurance companies have to be prepared in accordance with International Financial Reporting Standards (IFRS) or the Generally Accepted Accounting Principles (GAAP) of the UK, the USA, or with the prior approval of the JFSC, "the country or territory in which the beneficial owner of the permit holder resides or is incorporated."

- Life insurers have to appoint as actuary either a Fellow of the Institute of Actuaries in England and Wales or a Fellow of the Faculty of Actuaries in Scotland or someone who can satisfy the JFSC that he has "such actuarial qualifications and experience as are appropriate." The JFSC considers the appropriateness of the actuarial standards adopted by insurers when assessing new permit applications and reviewing financial statements.

16. **There is currently no official oversight of the quality of the audit work of Jersey companies, although auditors are subject to reviews by their relevant professional body such as the practice assurance review scheme operated by the Institute of Chartered Accountants in England and Wales.** However, legislation to amend the Companies Law is being drafted that, in respect of companies that have securities that are admitted to trade on regulated markets, will (i) result in one or more professional bodies monitoring the quality of audit work; and (ii) enable action to be taken against auditors that breach rules designed to facilitate high quality audits.

Recent performance

17. **Given the absence of data on the Jersey business of Category A permit holders and the limited business of Category B firms, it is not possible to assess the performance and profitability of Jersey insurance business.** The mission did not undertake stress tests for the insurance sector. However, the mission was informed that general insurance business in Jersey is highly competitive and that there are limited indications as yet of a return to harder market conditions (i.e., scope for insurers to charge high premiums to reflect actual or expected increases in risk and/or changes in competitive conditions). All Category B firms maintain solvency cover well in excess of their minimum required margins.

18. **The impact of the global credit and liquidity problems on Jersey insurers (Category B) has been limited, reflecting the nature and scale of their activities.** There have been no significant losses. Impacts will be indirect, for example through reduced interest in the use of Jersey registered insurers by fund managers that wish to establish special purpose vehicles holding investment instruments and which have an insurance element.

Main findings

Table 1. Summary of Observance of the Insurance Core Principles—Detailed Assessments		
Insurance Core Principle	Grading	Comments
ICP1 - Conditions for effective insurance supervision	O	Jersey has well-defined, transparent and effective policy, legal and institutional frameworks for insurance business and access to well-functioning financial markets. The jurisdiction benefits from the availability of professional services locally and through access to the resources of major practices in the UK and elsewhere.
ICP2 - Supervisory objectives	O	The JFSC has clear and appropriate objectives (expressed as functions and guiding principles) and there is a clear distinction between regulation and promotion of the insurance sector.
ICP3 - Supervisory authority	LO	The JFSC has adequate powers and resources and is operationally independent. The need for government to make regulations and orders covering key aspects of the regulatory requirements could in certain circumstances constrain the JFSC's ability to meet its regulatory objectives and could expose it to political influence. In practice, however, the JFSC enjoys a high degree of operational independence from government. Schedule 1 (FSC(J) L) should provide an explicit requirement that the reasons for the dismissal from office of any commissioner be made public.
ICP4 - Supervisory process	O	The JFSC conducts its functions in a transparent and accountable manner. Comprehensive information on its activities is provided to government, the States, and the public through various means. However, more information could be made available specifically on the insurance sector and regulatory activities for insurance.
ICP5 – Supervisory cooperation and information sharing	O	The JFSC is committed to exchanging information with other supervisors, as evidenced by its readiness to become a signatory to the IAIS Multilateral MOU, and is doing so in practice in respect of both insurers and intermediaries. It is rightly focusing on developing its contacts with overseas regulatory agencies with the most importance to its market, particularly the UK.
ICP6 – Licensing	PO	There is a comprehensive framework for the licensing of insurance business as defined by the IB(J)L. However, one general insurance business with significant domestic business is exempted from the licensing requirements in Jersey. While in licensing a foreign insurer (a Category A firm), the JFSC must satisfy itself that the regulatory framework in the home state is "adequate", the JFSC has not developed an internal policy for making such an assessment (e.g., is equivalence considered). Category A insurers includes a small number of firms with physical presences in Jersey, i.e., branches. The JFSC should review its approach to these firms to implement regulation that reflects their branch status.
ICP7 – Suitability of persons	O	The JFSC has a comprehensive framework for considering the suitability of key functionaries. The range of functionaries subject to these requirements is limited compared with some jurisdictions, but is adequate to enable the JFSC properly to assess the suitability of those persons with the main influence

Table 1. Summary of Observance of the Insurance Core Principles—Detailed Assessments

Insurance Core Principle	Grading	Comments
		on compliance. The JFSC could consider whether it would find it useful to have an explicit provision preventing a person holding two positions in a company with potential for conflict of interest. It has adequate powers to identify and address such conflicts where they arise in practice.
ICP8 – Changes in control and portfolio transfers	PO	The IB(J)L provides a framework for the regulation of changes in control and portfolio transfers. However, there is a gap in respect to changes of control—the IB(J)L does not place obligations directly on controllers to seek approval and shareholder controllers are not required to notify or seek approval for increases above predetermined control levels, even though in practice the requirements on firms to make notifications should enable the JFSC to identify and deal with most changes of control effectively.
ICP9 – Corporate governance	O	The JFSC has developed a comprehensive set of requirements for corporate governance in its Codes of Practice for Insurance Business (Insurance Codes).
ICP10 – Internal controls	O	The JFSC has developed a comprehensive set of requirements for internal controls in its Insurance Codes.
ICP11 – Market analysis	O	The JFSC monitors the activities of licensed firms and wider market developments—taking into account the limited range of business conducted in Jersey.
ICP12 – Reporting to supervisors and off-site monitoring	O	The JFSC has a well-developed process for analyzing annual returns and taking follow-up action. The JFSC by choice employs no qualified actuaries and the off-site work therefore relies on the UK Government Actuary's Department (GAD) for the analysis of the most technical issues. This relationship, which has now been in place for a number of years, functions effectively. Supervisory staff takes responsibility for the communication and follow-up of issues at all stages of the process.
ICP13 - On-site inspection	LO	The JFSC has greatly increased on-site work in the last 18 months using a well-structured approach to on-site work that links visit frequency and scope to the firm's risk rating and the wider supervisory program. The JFSC should develop the approach to include a thematic visit program —which may be most useful for intermediaries given the diverse nature of the insurance sector. It should also apply the model to branches, i.e., Category A firms with physical presences on the island.
ICP14 - Preventive and corrective measures	O	The JFSC's approach is informed by its ability to communicate regularly with the small number of authorized insurance companies. This makes it easy to address concerns in the first instance through supervisory dialogue and discussion. However, the JFSC also has powers that it has used in practice to make more formal requirements of firms in the event of actual or expected concerns.
ICP15 - Enforcement or sanctions	O	The insurance regulatory framework includes extensive formal enforcement powers—many can be exercised directly by the JFSC, others require application to the Royal Court and the imposition of fines requires court proceedings. The JFSC rarely uses its powers in practice—reflecting the limited

Table 1. Summary of Observance of the Insurance Core Principles—Detailed Assessments		
Insurance Core Principle	Grading	Comments
		insurance business on the island and the results it has been able to achieve through preventive and corrective measures before a resort to formal action. The JFSC has taken enforcement action in other sectors under similar powers to those available for insurance business.
ICP16 - Winding-up or exit from the market	O	The framework clearly provides for appropriate routes for orderly exit and sets out the procedures for dealing with insolvency, including through transfer of policies to another insurer. The insolvency framework has not been tested in practice as no insurer has failed nor has the JFSC ever sought a winding up.
ICP17 - Group-wide supervision	NA	The JFSC currently has no responsibilities as group/home supervisor of any insurance group. Its current framework lacks key elements of the approach it would need were it to acquire such responsibilities, particularly a group solvency test. The JFSC should be able to adopt the necessary requirements and apply them via its directions and conditions powers, were the need to arise.
ICP18 - Risk assessment and management	LO	The JFSC has developed requirements for risk assessment and risk management in its Insurance Codes. The provisions applying to risk management are relatively limited and could be expanded, for example to set out the need for insurers to have a statement of risk appetite and to be able to assess, monitor and manage operational as well as other risks.
ICP19 - Insurance activity	O	The JFSC has adequate powers and procedures to require insurance companies to have the tools necessary to price business and manage their insurance risks effectively.
ICP20 - Liabilities	O	The JFSC has no framework of requirements for the establishment of adequate provisions and valuation of amounts recoverable under reinsurance. Instead, it requires firms to use international standards and normally those of the UK. Given the currently limited range of insurance business in the island—and limited insurance risks—such an approach is practical and efficient. In addition, the JFSC makes use of external actuarial support (GAD) to review the adequacy of individual firms' provisions.
ICP21 - Investments	O	The JFSC has an adequate framework of requirements on insurers' investments in the IB(J)L, Orders and Insurance Codes. To be fully effective, these requirements need to be enforced by adequate supervision and enforcement and through periodic exercises such as stress-testing and thematic visit programs. The JFSC should continue to monitor compliance with its requirements in the course of its on-site work in particular.
ICP22 - Derivatives and similar commitments	O	Given the limited scope of their insurance business, the use of derivatives by insurers in Jersey is low. The Insurance Codes include the key requirements for derivatives business. In practice, it adopts a tailored approach to the supervision of derivatives risks, allowing firms to use derivatives on a case by case basis. This is appropriate given the nature of the Jersey insurance sector.
ICP23 - Capital adequacy and solvency	LO	The JFSC has an appropriate framework of solvency regulations and processes to monitor solvency levels and to

Table 1. Summary of Observance of the Insurance Core Principles—Detailed Assessments

Insurance Core Principle	Grading	Comments
		respond to breaches of minimum requirements. However, it should consider whether reliance on the EU Solvency I framework is appropriate. Many other jurisdictions have strengthened their requirements pending developments in international standards.
ICP24 - Intermediaries	O	The JFSC has a comprehensive framework for the regulation of insurance intermediaries. While the regulation is carried out under different laws and requirements from those applying to insurance companies, the JFSC has equivalent powers, including for enforcement of its requirements.
ICP25 - Consumer protection	O	The JFSC has a well-developed set of requirements on market conduct, applying to both insurers and intermediaries and, with the exception of Category A firms, assesses the issues in its supervisory work. While Jersey insurers are writing little new business, the JFSC could review its approach to consumer protection issues in firms closed to new business.
ICP26 – Information, disclosure and transparency towards markets	NO	The JFSC has no requirements on disclosure by insurance companies of any of the information specified in this ICP. While for a number of Category B firms, such disclosure would have limited value or would be inappropriate given the nature of the business, some firms have significant numbers of policyholders and some are open to new business.
ICP27 - Fraud	O	The JFSC has a range of powers to require that insurance companies address fraud risks and it covers the issues in its risk assessment of firms and in its supervisory work. It should consider including in the Insurance Codes some requirements that address specifically the need for insurers to allocate resources and have effective procedures and controls to deter, detect, record, and report fraud.
ICP28 - Anti-money-laundering, combating the financing of terrorism	O	The JFSC has a well-developed set of requirements and includes AML issues in on-site supervision work. See also the IMF's assessment, carried out in November 2008, of compliance with the FATF AML/CFT standards, using the 2004 Methodology.
Aggregate: Observed (O) – 20, largely observed (LO) – 4, partly observed (PO) – 2, not observed (NO) – 1, not applicable (N/A) – 1.		

Recommended action plan and authorities' response

Recommended action plan

Table 2. Recommended Action Plan to Improve Observance of the Insurance Core Principles

Principle	Recommended Action
ICP3 - Supervisory authority	Schedule 1 of the FSC(J) L should be amended to provide an explicit requirement that the reasons for the dismissal from office of any commissioner be made public.
ICP6 - Licensing	The scope of exemptions from the IB(J)L needs to be narrowed so that all insurers are required to be licensed and are subject to JFSC supervision. The JFSC should develop an internal policy on the assessment of whether regulation by the home state regulators of Category A firms is equivalent to that of the JFSC. The JFSC should review its approach to the regulation of Category A firms with a presence on the island—these should be regulated as branches.
ICP8 – Changes in control and portfolio transfers	The IB(J)L should be amended to require potential shareholder controllers of insurance companies to seek the JFSC's consent at the appropriate levels of control.
ICP13 - On-site inspection	The JFSC should apply its risk model to branches, i.e., Category A firms with physical presences on the island—and undertake on-site work as justified by its assessment of the risks. It should introduce a thematic (cross-firm) approach to its supervisory work.
ICP17 - Group-wide supervision	The JFSC should review whether, in the event that it were ever to take on group/home supervisory responsibilities, it would have adequate powers and policies. Opportunities to amend the legislation could be taken, for example to give the JFSC powers to obtain information from unregulated entities within a group.
ICP 18 – Risk assessment and management	The JFSC should develop further requirements on risk management, for example setting out the need for insurers to have a statement of risk appetite and to be able to assess, monitor and manage operational risk.
ICP 23 - Capital adequacy and solvency	The JFSC should continue to monitor the development of international standards for risk based solvency. Pending the introduction of these new standards the JFSC should review its existing solvency requirements and, where appropriate, introduce revised standards or set individual minimum requirements based on the risk assessment of each firm.
ICP26 - Disclosure and Transparency	The JFSC should work with insurers to develop disclosure requirements, taking into account the nature of insurance business conducted by firms incorporated on the island, and taking a view on which insurers to apply them to—e.g., whether they should apply to the small number of Category A insurers with physical presence on the island. The JFSC could also consider publishing all or part of supervisory returns itself.

Authorities' Response to the Assessment

19. **The JFSC is pleased to note that the IMF assessment of Jersey's compliance with the 28 IAIS Core Principles acknowledges that insurance regulation in Jersey has been strengthened since the 2003 assessment.** That earlier assessment rated Jersey as "observed" or "broadly observed" with respect to the previous 17 IAIS Core Principles. The JFSC also appreciates the open and productive nature of the meetings held during the IMF assessment and of the subsequent dialogue held.

20. **The JFSC has considered the IMF report and the recommendations made, with which it is in broad agreement.** It has prepared an action plan to address each of the recommendations, albeit without losing sight of the very limited nature of the Jersey insurance market. For example, the recommendation (ICP 26) relating to disclosure requirements will be developed in the context of the specialized nature of the local market. In some instances the action plan involves amending legislation to incorporate explicit provisions that reflect the current practices of the JFSC.

21. **The JFSC will continue to consider developments in international standards for insurance regulation and intends to continue with its approach of seeking to incorporate these in its regulatory requirements.**

II. Detailed Assessment

Table 3. Detailed Assessment of Observance of the Insurance Core Principles

Conditions for Effective Insurance Supervision	
Principle 1.	Conditions for effective insurance supervision Insurance supervision relies upon: - a policy, institutional and legal framework for financial sector supervision - a well developed and effective financial market infrastructure - efficient financial markets.
Description	Government policy is to develop a growing financial sector—2 percent sustainable growth in real terms across the finance industry as a whole. There are no official targets to develop particular areas of business. Jersey Finance Limited is the body charged with promoting the finance sector and the JFSC no longer has any objectives relating to promotion of the sector. The Council of Ministers is responsible for public finances and economic stability. There is no formal body responsible (e.g., in legislation) for financial stability—and Jersey has no central bank to take on this role. There is no explicit government statement on financial stability, nor is financial stability explicitly included in the JFSC's functions and general principles. However, the JFSC is required to have regard to the best economic interests of Jersey. There is a well-developed legal and institutional infrastructure. Because Jersey is not an EU member, it develops its own framework for financial services regulation. But it has close regard to EU standards and practices. The legal and institutional framework is transparent—for example, information is posted on the websites of government, Jersey Finance and the JFSC, and system wide issues are reviewed in meetings between JFSC

Table 3. Detailed Assessment of Observance of the Insurance Core Principles	
Conditions for Effective Insurance Supervision	
	and government. There is a well-established and resourced court system, whose judgments command confidence, but no alternative dispute resolution mechanism outside the judicial system for handling complaints. Jersey has its own company's legislation, but has no local accounting or actuarial standard setting bodies and it looks to other jurisdictions, especially the UK, for its framework of accounting, auditing and actuarial standards. In the insurance sector, companies are required to produce financial statements prepared in accordance with IFRS or the GAAP of the UK, the USA (or, with the prior approval of the JFSC, "the country or territory in which the beneficial owner of the permit holder resides or is incorporated.") They must be audited by a firm that has among its partners or directors, a majority who are members of a professional body in the UK or Ireland and has been approved by the JFSC by virtue of the Schedule to the Insurance Business (General Provisions) (Jersey) Order 1996 (General Provisions Order). All the major accounting firms are present on the island and there is adequate capacity to audit the Category B insurers. In practice, the majority of the Category B insurance companies are audited by the major accounting firms. Life insurers have to appoint as actuary either a Fellow of the Institute of Actuaries in England and Wales or a Fellow of the Faculty of Actuaries in Scotland or someone who can satisfy the JFSC that he has "such actuarial qualifications and experience as are appropriate for an actuary under the IB(J)L." There are few, if any, actuaries practicing on the island. However, actuarial expertise is available in Guernsey or the UK. Except in the case of a Jersey company that is a public company, accounts do not have to be published (see ICP26). Accounting and auditing work are not currently subject to oversight. There is no local equivalent of the UK Financial Reporting Council or its Professional Oversight Board (POB). However, legislation to amend the Companies Law is being drafted that, in respect of companies that have securities that are admitted to trade on EU regulated markets, will (i) result in one or more professional bodies monitoring the quality of audit work; and (ii) enable action to be taken against auditors that breach rules designed to facilitate high quality audits. There are no developed financial markets (money or securities) in the island - and no need for them as insurance companies can look to markets in the UK and elsewhere for access to financial instruments and for reinsurance. Even domestic liabilities can be backed by overseas investments as there is a currency union between the Jersey pound and the UK pound sterling.
Assessment	Observed
Comments	Jersey has well-defined, transparent and effective policy, legal and institutional frameworks for insurance business and access to well-functioning financial markets overseas. The jurisdiction benefits from the good availability of accounting and auditing services locally and from access to actuarial expertise in the UK and elsewhere.

Table 3. Detailed Assessment of Observance of the Insurance Core Principles

Conditions for Effective Insurance Supervision	
The Supervisory System	
Principle 2.	Supervisory objectives **The principal objectives of insurance supervision are clearly defined.**
Description	The JFSC has specific statutory functions under the FSC(J)L (Article 5) and is also required to have regard to certain guiding principles (Article 7). Together, these are equivalent to statutory objectives. As an integrated regulator covering many sectors, the JFSC does not have objectives relating specifically to insurance. However, the guiding principles are likely to promote the insurance related objectives listed in ICP 2. The principles are: the reduction of the risk to the public of financial loss due to dishonesty, incompetence, or malpractice by or the financial unsoundness of persons carrying on the business of financial services in or from within Jersey; the protection and enhancement of the reputation and integrity of Jersey in commercial and financial matters; having regard to the best economic interests of Jersey; and the need to counter financial crime both in Jersey and elsewhere. Deviations from objectives, and contradictions between them, would be highlighted and addressed, in conjunction with government. In practice, the JFSC believes its objectives are not in conflict.
Assessment	Observed
Comments	The JFSC has clear and appropriate objectives (expressed as functions and guiding principles) and there is a clear distinction between regulation and promotion of the insurance sector.
Principle 3.	Supervisory authority The supervisory authority: - has adequate powers, legal protection and financial resources to exercise its functions and powers - is operationally independent and accountable in the exercise of its functions and powers - hires, trains and maintains sufficient staff with high professional standards - treats confidential information appropriately.
Description	The IB(J)L clearly identifies the JFSC as the regulator of insurance, defines the scope of its responsibilities and gives it powers to make and enforce regulatory requirements. The JFSC has wide-ranging powers under the IB(J)L to discharge its responsibilities. It does not have explicit rule-making powers. But it may issue codes of practice to provide "practical guidance in respect of any provisions of this Law [the IB(J)L] and establishing sound principles for the conduct of insurance business" (IB(J)L Article 42). Failure to follow the Insurance Codes provides a basis for the JFSC to take regulatory action and the Insurance Codes are widely considered to set requirements. In insurance, key requirements, including those relating to corporate governance and market conduct, are set out in the Insurance Codes. The IB(J)L also provides for the minister to make orders covering various requirements including solvency margin requirements. These orders are made on the recommendation of the JFSC by the minister and are presented to the States (which may overturn an order that has been made). Regulations may be made directly by the States where provided for in primary laws.

Table 3. Detailed Assessment of Observance of the Insurance Core Principles	
Conditions for Effective Insurance Supervision	
	The Insurance Codes must be complied with by insurance companies and are enforced by the JFSC similarly to Orders and Regulations. Material breaches of the Insurance Codes may attract a direct regulatory response, for example a public statement under Article 43 of the IB(J)L; or the JFSC may respond to a breach by issuing a direction (under Article 36 of the IB(J)L) requiring remedial action. Any breach of the direction is a criminal offence and could attract additional enforcement action by the JFSC using its wide range of powers (see ICP15). However, the Insurance Codes have only evidential status in court – i.e. the Royal Court is required to take account of the relevant provisions of Insurance Codes in determining whether a criminal offence has been committed but a breach of an Insurance Code provision does not on its own render any person liable to criminal proceedings (or invalidate any transactions). Codes of practice have been issued for a number of financial sectors and the JFSC has extensive experience of enforcing code provisions successfully, although it has not to date taken action directly against an insurer for an Insurance Code breach. The JFSC's governance and structure are defined in the FSC(J)L, including internal corporate governance procedures. The JFSC has an internal audit function. Commissioners are appointed by the States on the nomination of the minister for economic development. By convention, members of the States are not appointed commissioners. Under the FSC(J)L, the composition of the JFSC has to secure a balance between the interests of providers of financial services, the users of such services and the interests of the public. Commissioners serve a maximum term of three years (renewable for a second term). Provisions for termination of appointment by the minister are clearly set out in FSC(J)L Schedule 1, Part 2 paragraph 1 (they have not been used to date). There is no provision requiring the reasons for removal from office to be published but the JFSC notes that Article 13 of the FSC(J)L provides for publications of matters in general affecting the JFSC and would be used were a removal necessary. Although the minister may give guidance or general directions to the JFSC, under Article 12 of the FSC(J)L, in relation to the policies of the States such as population control, this can be of a general nature only. The minister and the JFSC have signed an MOU covering Article 12 but to date, the minister has given no guidance or directions. The JFSC has full operational autonomy in respect of its expenditure, including staff remuneration (staff are JFSC employees not civil servants). Its income is derived from fees levied on licensed companies and annual returns from Jersey company's on the Companies Register. The JFSC may also receive a grant from the States of Jersey under Article 16 of the FSC(J)L or a loan under Article 17 but it has always been self-funding from the fees and charges that it levies. Like any other employer in Jersey, the JFSC is subject to the Regulation of Undertakings and Development (Jersey) Law 1973 – under which the population office sets a cap on the number of staff that can be employed by each business. Any proposed increase in staff numbers arising from the business plan will need such approval before recruitment can commence. In practice, this has not proved a constraint on staffing the JFSC with the required headcount. Otherwise, the JFSC is independent from the States in its recruitment, development, and retention of staff. The insurance division, covering the regulation of all licensed insurance companies and general insurance intermediaries, has a staff of four – an increase from two in mid-2007 and only one some years ago. This increase, and a restructuring of the JFSC which ensured that an adequate amount of resource is devoted to the insurance sector, have

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	made possible the introduction of a risk assessment process and more extensive on-site supervision. Resources can be supplemented with external consultants as required. Taking into account the limited number of Category B firms and the risks in the sector, this seems an adequate staffing but it will be kept under review, for example ahead of possible increased requirements arising from whatever response the JFSC makes to developing international standards. The JFSC's regulatory framework is set out in legislation and its own publications, including codes of practice. With the exception of codes of practice the JFSC is not obliged, by law, to consult on new regulatory requirements. However it has committed to consult using specific processes as set out in a policy statement. While not required, regulatory impact assessments are conducted. The annual report includes audited financial information relating to the JFSC. In addition to publishing an annual report, the JFSC seeks to account for its activities and policies at public events. It has not published details of failed insurers—there have been no cases. The JFSC has powers to take immediate action where required to protect policyholders. It can require costs to be met by the insurer where the insurer is deemed at fault. Restrictions on disclosure of confidential information, other than through specified gateways for defined purposes, are set out in the IB(J)L Articles 29 (covering restrictions) and 30 to 34 (gateways). The restriction in Article 29 applies also to information that is collected under the IB(J)L by experts and consultants.
Assessment	Largely Observed
Comments	The JFSC has adequate powers and resources and is operationally independent. The need for government to make Regulations and Orders covering key aspects of the regulatory requirements could in certain circumstances constrain the JFSC's ability to meet its regulatory objectives and could expose it to political influence. In practice, however, the JFSC enjoys a high degree of operational independence from government. Schedule 1 of the FSC(J)L should provide an explicit requirement that the reasons for the dismissal from office of any commissioner be made public.
Principle 4.	Supervisory process The supervisory authority conducts its functions in a transparent and accountable manner.
Description	The JFSC's requirements and information on its processes are readily available, on its website (for example, its decision-making guidance) and in the Annual Report. Requirements and processes are kept under review. Wider information on its role is available on the website. It is currently revising a key policy statement on licensing insurance companies. The JFSC's approach to regulation is grounded in its functions and guiding principles set out in the FSC(J)L. These condition it to act consistently and equitably, taking into account the risks in different insurance business. There is provision in Article 9 of the IB(J)L for appeals to the Royal Court on refusal of a permit, the variation of permit conditions or the cancellation of a permit. Article 8A(3) provides for the JFSC to apply to the Royal Court to avoid or reduce a delay in the effective date for the variation of permit conditions or the cancellation of a permit where

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	the Royal Court is satisfied that it is in the best interests of policyholders. The Annual Report contains some information on the insurance sector and its regulation. Other statistical information is available on the JFSC website.
Assessment	Observed
Comments	The JFSC conducts its functions in a transparent and accountable manner. Comprehensive information on its activities is provided to government, the States and the public through various means. However, more information could be made available specifically on the insurance sector and its regulatory activities for insurance.
Principle 5.	Supervisory cooperation and information sharing The supervisory authority cooperates and shares information with other relevant supervisors subject to confidentiality requirements.
Description	Articles 29-34 of the IB(J)L set out provisions for the disclosure of information, which does not require a formal agreement as a prerequisite for information sharing. While the JFSC is required to take into account whether corresponding assistance would be given in the recipient country, there is no requirement for reciprocal exchange. The JFSC has MOUs with 16 overseas authorities in respect of insurance – those with whom it expects to exchange information regularly. The JFSC is applying to become a signatory to the IAIS Multilateral MOU. The provision of Articles 33(2)(a) & (b) and 33(3) of the IB(J)L require any information released to another supervisor to be treated as confidential by the receiving supervisor and to be used only for supervisory purposes. The JFSC would inform the home supervisor of insurance companies in advance of taking enforcement action. The JFSC has exchanged information in practice with overseas authorities – in response to formal requests and in meetings with other regulators. It would attend college meetings where Jersey business represents a significant part of the total business of the group.
Assessment	Observed
Comments	The JFSC is committed to exchanging information with other supervisors, as evidenced by its readiness to become a signatory to the IAIS Multilateral MOU, and is doing so in practice in respect of both insurers and intermediaries. It is rightly focusing on developing its contacts with overseas regulatory agencies with the most importance to its market, particularly the UK.
The Supervised Entity	
Principle 6.	Licensing An insurer must be licensed before it can operate within a jurisdiction. The requirements for licensing are clear, objective and public.
Description	Article 1 of the IB(J)L includes a definition of an insurance company, which includes reinsurance. Under Article 5 of the IB(J)L there are two types of permit. Category A permits are granted to insurers that hold an authorization to carry on insurance business under the law of a jurisdiction outside Jersey – provided that the JFSC is satisfied that the business is subject to regulation in its home state. Category B permits are issued to any other insurer that carries on insurance business in or from within Jersey.

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	Article 5 of the IB(J)L requires that no person shall carry on insurance business in or from within Jersey unless authorized by an insurance business permit that has been granted under Article 7. There are exemptions for trade union and employers' associations and banks in respect of certain business, Society of Lloyd's members – and business carried on under other legislation. The effect of the latter exemption is significant - one general insurance business established under its own legislation is not regulated by the JFSC or any other authority. Part 2 of the IB(J)L sets out clearly and comprehensively the requirements that insurers must meet if they are to be authorized. When insurance permits are initially issued, special conditions may be attached to the permit under Article 7 of the IB(J)L. In addition there is a requirement under Condition 9 of the Schedule to the General Provisions Order that the auditors formally report on a six monthly basis that the company has complied with such conditions. Under Condition 10 of the Schedule to the General Provisions Order, the permit holder is required, when submitting annual audited financial statements, to provide the JFSC with a five year rolling business plan including appropriate explanations of variances and amendments from year to year. A permit application must include details of the products to be provided by the insurer. Under Condition 4 of the Schedule to the General Provisions Order, the permit holder cannot introduce new products without the prior consent of the JFSC. For every application from a foreign insurer, the JFSC will seek appropriate information from the home supervisor as part of the initial application process, and will also obtain a copy of the return (financial statements and regulatory return together with solvency statements) as submitted to the home regulator as part of the annual renewal application. The JFSC always obtains confirmation from the home regulator that there are no regulatory issues in the home jurisdiction as part of the application review process. An insurer may write only general or long term insurance, composites are not permitted. This requirement is detailed in the JFSC's published IB(J)L Licensing policy (now under review). Insurers are not usually permitted to carry on activities that are not related to insurance. The JFSC is the only authority permitted to issue an insurance permit. Articles 7(10) & 8 of the IB(J)L require the JFSC to give notice in writing, and an explanation, where a permit is refused, the permit conditions are varied, or a permit is cancelled. The JFSC's internal performance standards require that applications are determined within 30 days of receiving all relevant information regarding the application. If a permit application is to be refused, then the applicant will be informed of the Guidance on the JFSC's Decision Making process as published on the JFSC website. In cases involving an application to carry on motor insurance business, additional authorization is required from the minister for transport and technical services under the provisions of the Motor Traffic (Third Party Insurance) (Jersey) Law 1948. No company may be authorized unless it is a member of the Motor Insurers' Bureau in the UK. In practice, the minister will not grant such authorization without prior assurance from the JFSC that it is prepared to issue an insurance permit and that membership of the MIB is

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	held by the applicant. Article 7(4) of the IB(J)L provides the grounds for refusal of a permit. The JFSC conducts on-site examinations after licensing to assess compliance with the IB(J)L and its associated orders and with the insurance codes
Assessment	Partly Observed
Comments	There is a comprehensive framework for the licensing of insurance business as defined by the IB(J)L. However, the law includes exemptions and one general insurance business with significant domestic business is not regulated in Jersey. While in licensing a foreign insurer (a Category A firm), the JFSC must satisfy itself that the regulatory framework in the home state is “adequate”, the JFSC has not developed an internal policy for making such an assessment (e.g. is equivalence required?). Category A insurers includes a small number of firms with physical presences in Jersey, i.e., branches. The JFSC should review its approach to these firms to implement regulation that reflects their branch status.
Principle 7.	Suitability of persons The significant owners, board members, senior management, auditors and actuaries of an insurer are fit and proper to fulfill their roles. This requires that they possess the appropriate integrity, competency, experience and qualifications.
Description	The IB(J)L Articles 7 and 23 identify and define the types of key functionary the appointment or introduction of which must be notified to the JFSC (and which the JFSC may object to) – in respect of Category B insurers. These are directors, chief executive, key persons (compliance officers, money laundering compliance and reporting officers) and shareholder controllers. Shareholder controllers are defined as those who alone or with associates control 15 percent or more of the voting power. The IB(J)L also gives JFSC the power to object to the continued appointment or holding of a key functionary whom it regards as no longer fit and proper. The JFSC’s powers in this area do not extend to auditors of insurance companies, although the appointment of an auditor is approved by the JFSC as a result of the schedule to the General Provisions Order. The JFSC would use general powers to either issue a direction or attach a condition to a permit in order to remove an auditor. There is no explicit provision preventing a person holding two positions in a company with potential for conflict of interest. The JFSC would use its general powers to prevent doubling up of office holding if it felt the conflicts were not being (or were not likely to be) managed. Insurers are required to notify the JFSC of developments which might call into question the JFSC’s view of their fitness and propriety. The IB(J)L Article 25 requires that insurers doing long-term business appoint an actuary and specifies required professional qualifications of such actuaries. The JFSC may talk to the professional body when it has issues with professional competence. Article 25 also allows the JFSC to serve notice of objection on an actuary and the firm directing that the actuary no longer continues as the firm’s actuary.

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Assessment	Observed
Comments	The JFSC has a comprehensive framework for considering the suitability of key functionaries. The range of key functionaries subject to these requirements is limited compared with some jurisdictions but is adequate to enable the JFSC properly to assess the suitability of those persons with the main influence on compliance. The JFSC could consider whether it would find it useful to have a formal provision preventing a person holding two positions in a company with potential for conflict of interest. It has adequate powers to identify and address such conflicts where they arise in practice.
Principle 8.	Changes in control and portfolio transfers The supervisory authority approves or rejects proposals to acquire significant ownership or any other interest in an insurer that results in that person, directly or indirectly, alone or with an associate, exercising control over the insurer. The supervisory authority approves the portfolio transfer or merger of insurance business.
Description	IB(J)L defines shareholder controllers of insurers (Article 1) and places obligations on insurers in respect of changes in control and significant increases in shareholdings (Article 23). However, there is no direct obligation on shareholder controllers themselves to seek the approval of the JFSC. Nor are shareholder controllers required to notify or seek approval for increases above any predetermined control levels – e.g., 50 percent. Article 23(6) of the IB(J)L provides the power for the JFSC to accept or reject any change in control of an insurance company. The JFSC communicates with regulators overseas where an application is received from a potential controller based overseas. Ultimate beneficial owners must be disclosed in applications and the JFSC examines group structures as applicable. Information on financial and other resources of applicant controllers is obtained and assessed. The JFSC does not routinely ask insurance companies to provide details of shareholders but does ask where necessary and has powers to require such disclosure. Additionally, Article 23(1) of the IB(J)L requires the permit holder to give written notice of any person who has become or is to become, or has ceased to be a shareholder controller. Under Article 27 and Schedule 2 of the IB(J)L, insurers undertaking portfolio transfers in respect of life insurance business are required to apply to the Royal Court for sanctioning (approval by the JFSC is not required, although JFSC has a right to be heard in court). The JFSC submits a report on its assessment of each scheme to the Royal Court.
Assessment	Partly Observed
Comments	The IB(J)L provides a framework for the regulation of changes in control and portfolio transfers. However, there is a gap in respect to changes of control - the IB(J)L does not place obligations directly on controllers to seek approval and shareholder controllers are not required to notify or seek approval for increases above predetermined control levels, even though in practice the requirements on firms to make notifications should enable the JFSC to identify and deal with most changes of control effectively.

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Principle 9.	Corporate governance The corporate governance framework recognizes and protects rights of all interested parties. The supervisory authority requires compliance with all applicable corporate governance standards.
Description	The JFSC sets out comprehensive requirements on corporate governance in its Insurance Codes. It also reviews corporate governance in its supervisory work. Paragraph 3.2.1.10 of the Insurance Codes requires the directors to provide an annual declaration that they accept and understand their responsibilities for compliance with the IB(J)L, Orders issued there under, and Insurance Codes, and that they have complied during the year in question. If not, the directors must specify in what regard compliance has not been maintained. The Insurance Codes include material on conflicts of interest and fair treatment of customers. There are no requirements for Board sub-committees. Insurers must have remuneration policies and must ensure that incentive schemes are managed so as to avoid any encouragement of improper or imprudent behavior. The requirements on actuaries are set out in brief in the General Provisions Order.
Assessment	Observed
Comments	The JFSC has developed a comprehensive set of requirements for corporate governance in its Insurance Codes.
Principle 10.	Internal control The supervisory authority requires insurers to have in place internal controls that are adequate for the nature and scale of the business. The oversight and reporting systems allow the board and management to monitor and control the operations.
Description	The JFSC sets out comprehensive requirements on internal controls in its Insurance Codes. As for corporate governance, the JFSC attaches importance to high standards in this area and covers internal controls in supervision work (including a review of internal reports and the external auditor's management letter) and enforcement work.
Assessment	Observed
Comments	The JFSC has developed a comprehensive set of requirements for internal controls in its Insurance Codes.
Ongoing Supervision	
Principle 11.	Market analysis Making use of all available sources, the supervisory authority monitors and analyses all factors that may have an impact on insurers and insurance markets. It draws the conclusions and takes action as appropriate.
Description	The JFSC monitors developments in the markets through its relationships with insurers, intermediaries, monitoring of press and other reporting and its membership of international supervisory groupings such as the IAIS and the Offshore Group of Insurance Supervisors. Its analysis takes account of the nature of the Jersey market – most Category A firms are based overseas and the range of business undertaken by Category B firms is limited. Information is made available on the JFSC website of licensed insurers.

Table 3. Detailed Assessment of Observance of the Insurance Core Principles	
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Assessment	Observed
Comments	The JFSC monitors the activities of licensed firms and wider market developments – taking into account the limited range of business conducted in Jersey.
Principle 12.	Reporting to supervisors and off-site monitoring The supervisory authority receives necessary information to conduct effective off-site monitoring and to evaluate the condition of each insurer as well as the insurance market.
Description	Insurers are required to make regular reports to the JFSC. Financial statements must be sent to the JFSC every six months within three months of the reporting date. In addition, insurers must submit audited accounts annually, to include (for life insurers) the actuary's valuation. Auditors are also required to confirm to the JFSC every six months that the insurer complies with the JFSC requirements that no new risks are written or products introduced without its consent and that the insurer is complying with restrictions on the investment of its liquid assets. JFSC staff review the returns initially and then communicate with the GAD in London, who are retained by the JFSC to provide technical analysis. JFSC staff then writes formally to companies with findings and issues arising from their own and the GAD work. Meetings and conference calls also take place, but the JFSC has put in place processes to ensure that issues are communicated formally in writing. It also monitors follow-up to ensure issues are addressed and further action taken as required. The results from the returns analysis are integrated with findings from on-site work and other sources of information to develop an overall view of firms and their risk profile under the JFSC risk model. Returns are not required on a group basis (see ICP17). Category A firms are exempt from all reporting requirements, although the JFSC can require reporting from individual or all permit holders if it thinks it appropriate. Category A firms are required to submit annual audited financial statements to the JFSC. The JFSC keeps reporting requirements under review and makes periodic changes.
Assessment	Observed
Comments	The JFSC has a well-developed process for analyzing returns and taking follow-up action. The JFSC by choice employs no qualified actuaries and the off-site work therefore relies on the GAD in the UK for the analysis of the most technical issues. This relationship, which has now been in place for a number of years, functions effectively. JFSC staff takes responsibility for the communication and follow-up of issues at all stages of the process.
Principle 13.	On-site inspection The supervisory authority carries out on-site inspections to examine the business of an insurer and its compliance with legislation and supervisory requirements.
Description	The JFSC has wide-ranging powers under Article 8 of the FSC(J)L to inspect and investigate the books, records, documents and transactions of an insurer – and under the IB(J)L a former insurer, applicant or persons who the JFSC considers may be conducting insurance business without authorization. On-site visit work may be undertaken on companies providing outsourcing services to an

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	insurer. The JFSC undertakes on-site inspection work, to verify information provided in returns, to investigate areas of concern and to assess risks. Until recently, its program of on-site work had been limited by the small number of staff available for insurance sector supervision. However, recruitment since mid-2007 has enabled the JFSC to assess all Category B insurers and general insurance intermediaries under the risk model and to carry out on-site work for all the Category B insurers and 90 percent of the total number of firms. Most on-site work to date has been of a discovery nature, linked to the risk assessment process (a risk model based on the UK FSA's approach is used, which assesses risks to the guiding principles by key risk areas). In future, visit frequency will depend on risk rating (risk takes account of impact and probability). For example, high risk firms will be visited every twelve months, medium risk at least every three years, and low risk firms on an adhoc basis. In addition to on-site work on particular firms, which may be full scope or focused, the JFSC conducts thematic visit programs—although it has not done so for two years and not at all yet under the current risk model framework. A typical on-site visit takes two to three days and involves up to three JFSC staff. Findings from full scope or focused work are communicated on-site and by written report to the insurer's senior management. A response is required and action points are followed up using a standard document (Post Examination Monitoring Schedule) that is agreed at regular intervals with the firm.
Assessment	Largely Observed
Comments	The JFSC has greatly increased its on-site work in the last 18 months using a well-structured approach to on-site work that links visit frequency and scope to the firm's risk rating and the wider supervisory program. The JFSC should develop the approach to include a thematic visit program, which may be most useful for intermediaries given the diverse nature of the insurance sector. It should also apply the model to branches, i.e., Category A firms with physical presences on the island.
Principle 14.	Preventive and Corrective Measures The supervisory authority takes preventive and corrective measures that are timely, suitable and necessary to achieve the objectives of insurance supervision.
Description	The JFSC has a range of preventive and corrective powers and procedures. It would normally start with supervisory dialogue and/or formal communication in writing to agree that there is a cause for concern and on the need for, and nature of, remedial action. Increasingly, such discussions are arising from on-site supervisory work. If a firm is unresponsive, the JFSC has powers to impose conditions on its authorization (Article 7(5) and (6) of the IB(J)L) and directions (Article 36). This latter power in particular has been used in a number of cases. If a firm continues not to comply, the JFSC could take further action using its powers of direction or it would move to a suspension or cancellation of the firm's permit (Article 7(9)). In the event of a breach of the required minimum solvency level, the JFSC can in the first instance require a remedial scheme (see ICP 16).

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Conditions for Effective Insurance Supervision	
Assessment	Observed
Comments	The JFSC's approach is informed by its ability to communicate regularly with the small number of authorized insurance companies. This makes it easy to address concerns in the first instance through supervisory dialogue and discussion. However, the JFSC also has powers that it has used in practice to place more formal requirements on firms in the event of actual or expected concerns.
Principle 15.	Enforcement or sanctions The supervisory authority enforces corrective action and, where needed, imposes sanctions based on clear and objective criteria that are publicly disclosed.
Description	The JFSC has extensive powers to intervene in the business of an authorized insurer. It has limited powers to impose civil penalties, but fines (and imprisonment) may be imposed by the Royal Court on conviction for prescribed infringements of law, regulations and orders (not codes of practice, though codes of practice are admissible as evidence in courts) where the relevant instruments provides for infringements to be a criminal offence. Such infringements include withholding information or providing misleading information. The JFSC itself has powers to issue public statements (Article 43 of the IB(J)L) and will issue private warnings as part of its normal supervisory processes. The JFSC has powers to impose conditions on authorization (Article 7(5) and (6) of the IB(J)L) and to issue directions (Article 36), which it can use, for example, to prevent a firm from writing new business. It could use an Article 36 direction to require a transfer of business. It would use a condition on a firm's permit to require additional capital or restrict dividends etc, but it has not done so in practice in any case. It can object to and require replacement of key functionaries. In cases of breaches of solvency requirements it can refuse to accept a remedial scheme proposed by the firm unless it includes appointment of a special manager. It can also apply to the Royal Court for appointment of a special manager under Article 9 of the IB(J)L and the Insurance Business (Appointment of Manager) (Jersey) Order 2008, which sets out a wide range of circumstances in which the JFSC may apply to the Royal Court for a manager to be appointed. The JFSC has powers to prevent an individual from holding a function of a particular or any licensed firm (Article 36(2)(c)). It can cancel a firm's permit to do insurance business (Article 7). It can take urgent action, subject to a requirement to apply to the Royal Court where a notice period before action takes effect would normally apply. Enforcement action is carried out in line with clearly defined and published internal decision-taking procedures.
Assessment	Observed
Comments	The insurance regulatory framework includes extensive formal enforcement powers, many of which can be exercised directly by the JFSC, but others require application to the Royal Court and the imposition of fines (apart from administrative fines) requires court proceedings. The JFSC rarely uses its powers in practice reflecting the limited insurance business on the island and the results it has been able to achieve through preventive and corrective measures before the resort to formal action. The JFSC has taken enforcement action in other sectors under similar powers to those available for insurance business.

Table 3. Detailed Assessment of Observance of the Insurance Core Principles	
Conditions for Effective Insurance Supervision	
Principle 16.	Winding-up and exit from the market The legal and regulatory framework defines a range of options for the orderly exit of insurers from the marketplace. It defines insolvency and establishes the criteria and procedure for dealing with insolvency. In the event of winding-up proceedings, the legal framework gives priority to the protection of policyholders.
Description	Article 24 of the IB(J)L on solvency margins requires insurers to notify the JFSC if their solvency margin is not at any time maintained (this is also a requirement of paragraph 6.5.14 of the Insurance Codes). In these circumstances, the JFSC may require an insurer to submit a short-term remedial financial scheme for agreement with the JFSC. Paragraph 8 of Article 24 empowers the JFSC to apply to the Royal Court for a winding-up order where a permit holder (a) fails to submit or is unable to submit a financial scheme, (b) fails to maintain the prescribed margin of solvency or (c) fails to notify the JFSC if the prescribed margin of solvency is not at any time maintained. The failure subsequently to comply with a scheme is also a ground for seeking a winding-up order under Article 24(8) of the Law. Alternatively, where it is considered necessary to protect the interests of policyholders, the JFSC may issue a special condition under the provisions of Article 7(6) requiring the company to close to new business. A view will then be taken whether the company should continue in run off, transfer its business to another insurer, or be wound up. Any such action may be progressed by the issue of a direction under Article 36 of the IB(J)L. Under Article 24(8) of the IB(J)L the JFSC may apply to the Royal Court for a winding up order pursuant to Article 155 of the Companies Law. Full provisions relating to the winding-up of a company are contained in Articles 144 to 194 (Part 21) of the Companies Law. To date one insurer has been the subject of a winding up order under Article 155 of the Companies Law. Article 26 of the IB(J)L requires Category B permit holders to keep long-term policyholders' assets and liabilities separate from the shareholders' assets and liabilities, and to maintain the necessary books and records in this regard. The JFSC can also apply to the Royal Court for appointment of a special manager—see ICP15. There are no compensation arrangements for non-life policyholders.
Assessment	Observed
Comments	The framework clearly provides for appropriate routes for orderly exit and sets out the procedures for dealing with insolvency, including through transfer of policies to another insurer. The insolvency framework has not been tested in practice as no insurer has failed nor has the JFSC ever sought a winding up.
Principle 17.	Group-wide supervision The supervisory authority supervises its insurers on a solo and a group-wide basis.
Description	The JFSC is not the regulator for any insurance group or financial conglomerates. It has no definition of insurance group or conglomerate in law or otherwise. It has no framework of requirements governing group solvency and other issues that are necessary for effective supervision of an insurance group and no powers to obtain information from unregulated companies within a group.

Table 3. Detailed Assessment of Observance of the Insurance Core Principles	
Conditions for Effective Insurance Supervision	
	The JFSC has host supervisory responsibilities, in respect of some Category B firms, which are part of wider groups and all Category A firms (not strictly in the context of group supervision, but as one of a number of supervisors responsible for the same legal entity because almost all these firms have no presence on the island, the scope of the JFSC's work is likely always to be limited). In the circumstances where it has responsibilities, the JFSC is empowered to share information (see ICP 5) and otherwise to cooperate with home regulators, which it does in practice in respect of the Category B firms where it is host supervisor. The JFSC has the power to request independent checks on information provided by a foreign insurer. This will usually be done jointly with the home supervisor. Similarly, the JFSC will accept requests from foreign home regulators for on-site visits to Jersey insurers where Jersey is the host supervisor. Article 7(4)(b) enables the JFSC to refuse or withdraw a permit on the grounds of the structure and organization of the applicant.
Assessment	Not Applicable
Comments	The JFSC currently has no responsibilities as group/home supervisor of any insurance group. Its current framework lacks key elements of the approach it would need were it to acquire such responsibilities, particularly a group solvency test. The JFSC should be able to adopt the necessary requirements and apply them via its directions and conditions powers, were the need to arise.
Prudential Requirements	
Principle 18.	**Risk assessment and management** The supervisory authority requires insurers to recognize the range of risks that they face and to assess and manage them effectively.
Description	The JFSC sets out requirements on risk assessment and risk management in its Insurance Codes (Principle 3 in particular). This requires management to assess the risks present in the business and to document them and the ways in which they are monitored and controlled. The JFSC also reviews these issues in its supervisory work for its risk assessment and in on-site work as appropriate. The JFSC expects larger insurance companies to have a risk management function and a risk management committee, as noted in paragraph 3.1, note 2 of the Insurance Codes.
Assessment	Largely Observed
Comments	The JFSC has developed requirements for risk assessment and risk management in its Insurance Codes. The provisions applying to risk management are relatively limited and could be expanded, for example to set out the need for insurers to have a statement of risk appetite and to be able to assess, monitor and manage operational as well as other risks.
Principle 19.	**Insurance activity** Since insurance is a risk taking activity, the supervisory authority requires insurers to evaluate and manage the risks that they underwrite, in particular through reinsurance, and to have the tools to establish an adequate level of premiums.
Description	The JFSC has no requirement that insurers have in place strategic underwriting and pricing policies. In its supervision of insurers, the JFSC relies on reviews of the reports made by insurers, including the six-monthly returns and five year rolling business plan

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	submitted with the audited financial statements, to assess insurance risks. The JFSC staff discuss with insurers developments in the reported data with a view to for example, assessing the adequacy of pricing and reserving policies, trends in expenses, and where necessary, the methodology used by the insurer to set premiums. There are no specific requirements aimed at ensuring the security of reinsurance (e.g., collateral). Instead, the JFSC relies on supervision to challenge firms on the quality of reinsurance cover, taking into account the scale of the exposure and the nature of the reinsurers they are using (e.g., whether they are major international groups). The JFSC will liaise with regulators in other jurisdictions as necessary in cases where the reinsurance company is located outside Jersey. In individual circumstances, the JFSC stipulates the maximum amounts of risk that may be retained (i.e. the point at which reinsurance is deemed necessary), using its powers to give directions if necessary, as well as set specific limits on the amount of reinsurance that can be placed with any one re-insurer.
Assessment	Observed
Comments	The JFSC has adequate powers and procedures to require insurance companies to have the tools necessary to price business and manage their insurance risks appropriately.
Principle 20.	Liabilities The supervisory authority requires insurers to comply with standards for establishing adequate technical provisions and other liabilities, and making allowance for reinsurance recoverables. The supervisory authority has both the authority and the ability to assess the adequacy of the technical provisions and to require that these provisions be increased, if necessary.
Description	There are no detailed requirements in legislation or Insurance Codes on valuation of liabilities. Insurers and their actuaries are required simply to follow standards set abroad: Article 7(2) of the General Provisions Order requires the actuarial valuation to be prepared in accordance with the rules of the Institute of Actuaries in England and Wales or the Faculty of Actuaries in Scotland. Paragraph 5.6 of the Insurance Codes requires insurers to ensure that insurance liabilities are calculated according to generally accepted insurance industry principles and accounting standards. In the case of long-term insurance, the technical provisions must be calculated and certified as correct by a qualified actuary. The Insurance Codes also encourage general insurance companies to use qualified actuaries for calculating their technical provisions. The IB(J)L requires Category B life insurers to appoint an actuary, whose responsibilities are set out in Article 7 of the General Provisions Order. This requires the appointed actuary (i) to prepare a valuation of the liabilities relating to the permit holder’s long term business every year (or more frequently if he or she considers it necessary) in order properly to monitor the permit holder’s margin of solvency; and (ii) to endorse in writing the valuation basis and the calculation of the permit holder’s solvency position in a statement provided as part of the annual financial statements required under Article 16 of the IB(J)L. In addition, through the use of permit conditions provided by Article 7 of the IB(J)L, the JFSC has the power to prescribe specific standards and methods, if necessary, that each insurer must adopt for the purpose of establishing proper technical provisions.

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	The sufficiency of technical provisions is checked (by the GAD) as a standard part of the review of an insurance company's annual return. The JFSC can require that such provisions be strengthened, through the use of directions (IB(J)L Article 36) or the issue of conditions (IB(J)L Article 7(1) or 7(5)). There are no requirements specifically relating to valuation of amounts recoverable under reinsurance. Stress testing is not required.
Assessment	Observed
Comments	The JFSC has no framework of requirements for the establishment of adequate provisions and valuation of amounts recoverable under reinsurance. Instead, it requires firms to use international standards – and normally those of the UK. Given the currently limited range of insurance business in the island—and limited insurance risks—such an approach is practical and efficient. In addition, the JFSC makes use of external actuarial support (GAD) to review the adequacy of individual firms' provisions.
Principle 21.	Investments The supervisory authority requires insurers to comply with standards on investment activities. These standards include requirements on investment policy, asset mix, valuation, diversification, asset-liability matching, and risk management.
Description	Article 2 of the Insurance Business (Solvency Margin) (Jersey) Order 1996 (Solvency Margin Order) lists in detail the types of asset in which a Category B permit holder may invest. The JFSC under Article 28 of the IB(J)L has the ability to stipulate how assets shall be held for safekeeping, and may require investments to be held by an independent custodian trustee. An insurer must ensure that assets and liabilities are appropriately matched, by product, time, currency and liquidity (paragraph 5.11 of the Insurance Codes). Under Condition 6 of the Schedule to the General Provisions Order, insurers must adopt international accounting standards or UK or US GAAP in valuing assets. The valuation basis used by the company must be declared in its accounts. Paragraphs 3.1.3 and 5.11 of the Insurance Codes require insurance companies to have proper investment policies (although no overall strategic investment policy) and internal controls and accountabilities in place. No assets may be pledged or lent without the prior approval of the JFSC. The diversity and specialized nature of much of the insurance business in Jersey makes it necessary for the JFSC to consider the application of valuation requirements to each firm. Under Article 7 of the IB(J)L, and paragraph 5.4 of the Insurance Codes, it may amend the permitted investments for an insurer according to circumstances by using conditions on the insurance permit. Paragraphs 3.1.3 and 5.11 of the Insurance Codes require insurance companies to have proper risk management policies and internal controls and accountabilities in place. These cover market risk, credit risk and liquidity risk, as well as business risks such as the custody of assets. Paragraph 3.1.3 of the Insurance Codes requires that there is appropriate oversight by the board of directors, and paragraph 3.1.3.3 states that the approval of exposure limits and investment procedures must be the responsibility of the board. Paragraph 3.7.1 of the Insurance Codes requires permit holders to ensure that their directors, senior managers and all other employees are fit and proper for their roles, and paragraph 3.7.3 requires that permit holders regularly monitor the competence and probity of all staff, from directors downwards.

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	Article 17 of the IB(J)L requires a permit holder to appoint an external auditor, who will also review internal controls and operational systems as part of the annual statutory audit. Additionally, a permit holder is required to have internal audit procedures in place, under paragraph 3.2.4 of the Insurance Codes. Paragraph 5.11.3 of the Insurance Codes states that a permit holder must undertake regular resilience testing for a range of market scenarios and changing investment and operating conditions in order to assess the appropriateness of its management policies.
Assessment	Observed
Comments	The JFSC has an adequate framework of requirements on insurers' investments in the IB(J)L, Orders and Insurance Codes. To be fully effective, these requirements need to be enforced by adequate supervision and enforcement and through periodic exercises such as stress-testing and thematic visit programs. The JFSC should continue to monitor compliance with its requirements in the course of its on-site work in particular.
Principle 22.	Derivatives and similar commitments The supervisory authority requires insurers to comply with standards on the use of derivatives and similar commitments. These standards address restrictions in their use and disclosure requirements, as well as internal controls and monitoring of the related positions.
Description	Paragraph 3.5 of the Insurance Codes sets out requirements on the use, management and disclosure of derivatives and other off-balance sheet items, including a requirement that firms have a policy governing the use of derivatives. These requirements are based closely on ICP 22. Under the Solvency Margin Order, derivatives are not approved or admissible assets. However, the JFSC can, at the request of the insurer, authorize the limited use of derivatives by means of a special condition attached to the permit using the powers provided by Article 7 of the IB(J)L. Where such authorization has been given, such derivatives may remain fully or partially inadmissible for solvency purposes.
Assessment	Observed
Comments	Given the limited scope of their insurance business, the use of derivatives by insurers in Jersey is low. The Insurance Codes include the key requirements for derivatives business. In practice, it adopts a tailored approach to the supervision of derivatives risks, allowing firms to use derivatives on a case by case basis. This is appropriate given the nature of the Jersey insurance sector.
Principle 23.	Capital adequacy and solvency The supervisory authority requires insurers to comply with the prescribed solvency regime. This regime includes capital adequacy requirements and requires suitable forms of capital that enable the insurer to absorb significant unforeseen losses.
Description	The JFSC's solvency requirements are clearly set out in the IB(J)L, Solvency Margin Order and Insurance Codes. Principle 5 of the Insurance Codes sets out a minimum share capital of £100,000 and the obligation to ensure that insurance liabilities are calculated and monitored on a continuous basis. Article 24 of the IB(J)L and the Solvency Margin Order set out the list of admissible assets and the calculation of minimum solvency itself. There are no requirements in relation to reinsurance: the JFSC relies on the requirement

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	on firms to report reinsurance arrangements to it and its ability to assess these arrangements firm by firm. Similarly, suitable forms of capital are not defined. Any form other than share capital requires the JFSC's approval. Intra-group claims are treated as inadmissible assets, unless the JFSC specifically agrees to admissibility. Actual solvency levels are monitored via the six-monthly returns and insurers also have an obligation to notify the JFSC of breaches. Breaches of the minimum level would be addressed through supervisory dialogue or powers under Article 24 of the IB(J)L to require a short term financial scheme, and potentially also the appointment of a manager. The JFSC can seek winding up of a company that fails to meet the terms of a short term financial scheme. It has not used these powers in practice for an insurance company and considers that it has not had cause to do so. The solvency regime is based on existing international standards, with some simplification. There is no explicit risk-based capital component. The JFSC is able to review the risks in each firm separately and require a tailored minimum solvency above the basic minimum in the standards as necessary (it would use its power in Article 7 of the IB(J)L to set conditions on a permit). It does not do so in practice, partly because solvency cover ratios are high.
Assessment	Largely Observed
Comments	The JFSC has an appropriate framework of solvency regulations and processes to monitor solvency levels and to respond to breaches of minimum requirements. However, it should consider whether reliance on the EU Solvency I framework is appropriate. Many other jurisdictions have strengthened their requirements pending developments in international standards. The JFSC has well-defined processes to monitor actual solvency levels and to respond to breaches of minimum requirements.
Markets and consumers	
Principle 24.	Intermediaries The supervisory authority sets requirements, directly or through the supervision of insurers, for the conduct of intermediaries.
Description	Intermediaries who carry on long-term (life and pensions) or general insurance mediation business in or from within Jersey are required to be registered under the FS(J)L. Some types of long-term insurance are classified as investments under paragraph 6 to the First Schedule to the FS(J)L. Intermediaries who advise on these are subject to different regulatory requirements from those applying to general insurance intermediaries and long-term insurance intermediaries as they fall to be regulated as an investment business. Article 7 of the FS(J)L prohibits the carrying on of unauthorized investment business and general insurance mediation business. Under Article 9 of the FS(J)L, the JFSC may refuse to register a person if it is not satisfied as to (i) the integrity, competence, financial standing, structure and organization of the applicant; (ii) the fit and proper standing of the persons employed by or associated with the applicant for the purposes of the business or who are principal persons; and (iii) the span of control of the business. Article 9 of the FS(J)L describes the grounds for the refusal or revocation of a license, and Article 10 permits the JFSC to attach conditions for remedial action to any particular license issued, or to vary any such condition. Under Article 12 of the FS(J)L the JFSC

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	may, subject to the approval of the Royal Court, appoint a manager on such terms as it considers appropriate to manage the affairs of a registered person. Article 23 of the FS(J)L provides the JFSC with the power to issue directions, and Article 24 enables the JFSC to apply to the Royal Court for injunctions and remedial orders. A public statement may be made under the provisions of Articles 25, 25A, 25B and 25C of the FS(J)L and the JFSC's extensive powers of intervention (through the Royal Court) are contained in Article 26. Article 20 of the FS(J)L requires a registered person who has control of, or is otherwise responsible for, client assets to arrange proper protection for them by way of segregation and identification of the assets. For long-term insurance broking, the Financial Services (Investment Business (Client Assets)) (Jersey) Order 2001 includes the requirements for the segregation of (Article 4) and accounting for (Article 5) client assets through the use of client bank accounts, and describes the permitted payments in and out of such client bank accounts that may be made by intermediaries. Paragraph 4.3.5 of the codes of practice for investment business (IB Codes) requires intermediaries to explain whether they are acting as a principal or as the agent of the client or any other person.
Assessment	Observed
Comments	The JFSC has a comprehensive framework for the regulation of insurance intermediaries. While the regulation is carried out under different laws and requirements from those applying to insurance companies, the JFSC has equivalent powers, including for enforcement of its requirements.
Principle 25.	Consumer protection The supervisory authority sets minimum requirements for insurers and intermediaries in dealing with consumers in its jurisdiction, including foreign insurers selling products on a cross-border basis. The requirements include provision of timely, complete and relevant information to consumers both before a contract is entered into through to the point at which all obligations under a contract have been satisfied.
Description	The JFSC has extensive requirements on market conduct. These apply to both Category A and B firms. However, Category A firms are permitted to apply to the JFSC for variations of the Insurance Codes "where strict adherence to the [Insurance] Codes would be at variance with regulatory requirements in the home jurisdiction." (Introduction to the Insurance Codes). Principle 2 in the Insurance Codes, the IB Codes, and the codes of practice for general insurance mediation business (GIMB Codes) each require the insurer/intermediary to act with due skill, care and diligence for their clients and to treat its customers fairly. Paragraph 3.3.5 of the IB Codes requires that employees must have obtained professional qualifications appropriate to their role. Continuing professional development requirements are detailed in paragraph 3.4 of the IB Codes. Paragraph 2.3 in each of the Insurance Codes, the IB Codes, and the GIMB Codes requires insurers and intermediaries responsible for providing advice or exercising discretion for its policyholders, clients or customers, to seek from them information on their financial situation and objectives. Paragraphs 4.6 of the Insurance Codes and 4.5 of the GIMB Codes require a permit holder to provide in writing details of the terms and conditions applying to the products and services it provides.

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	Paragraph 4.8 of the Insurance Codes and paragraph 4.6 of the GIMB Codes oblige a permit holder to disclose the charges associated with a policy and to provide notice periods for the provision of information to policyholders. Paragraph 2.1 of the Insurance Codes and GIMB Codes requires insurers and intermediaries to deal with claims effectively in order to comply with their obligation to act with due skill, care and diligence in accordance with the relevant codes of practice. The requirement for the establishment and management of complaints handling systems and procedures is laid down under paragraph 3.6 of the Insurance Codes, paragraph 3.5 of the GIMB Codes and paragraph 3.6 of the IB Codes. The JFSC has issued its own policy statement on complaints handling. Market conduct issues are covered in the JFSC's risk model and in the off-site and on-site monitoring of Category B insurers and intermediaries. There is no compensation scheme covering insurance business, including intermediation.
Assessment	Observed
Comments	The JFSC has a well-developed set of requirements on market conduct, applying to both insurers and intermediaries and, with the exception of Category A firms, assesses the issues in its supervisory work. While Jersey insurers are writing little new business, the JFSC could review its approach to consumer protection issues in firms closed to new business.
Principle 26.	Information, disclosure & transparency towards the market The supervisory authority requires insurers to disclose relevant information on a timely basis in order to give stakeholders a clear view of their business activities and financial position and to facilitate the understanding of the risks to which they are exposed.
Description	Firms are required to produce and provide annual financial statements together with an auditors report to the JFSC in accordance with Articles 16 to 19 of the IB(J)L. The JFSC expects such financial statements to be made available to stakeholders and believes that in practice they are made available on request. But they do not have to be lodged with the Companies Registry or otherwise made public. The JFSC does not publish insurers' annual audited financial statements or six-monthly returns itself. Where the insurance company authorized in Jersey is part of an overseas insurance group, information on the group's financial position, risks etc will be available in the group's accounts, which may also contain information on Jersey operations.
Assessment	Not Observed
Comments	The JFSC has no requirements on disclosure by insurance companies of any of the information specified in this ICP. While for a number of Category B firms, such disclosure would have limited value or would be inappropriate given the nature of the business, one firm has significant numbers of policyholders and some are open to new business.
Principle 27.	Fraud The supervisory authority requires that insurers and intermediaries take the necessary measures to prevent, detect and remedy insurance fraud.
Description	Because the need to counter financial crime is one of the JFSC's guiding principles in law, its full range of powers can be used to make and enforce requirements in relation to fraud – on insurers and intermediaries.

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	The JSFC has powers to obtain information (Articles 10 to 14 of the IB(J)L) and gateways for the exchange of information with enforcement authorities and other supervisors (Articles 29 to 34). Resources are available in the Supervision and Enforcement divisions. The JSFC has an extensive track record of cooperation with authorities in the island and with overseas regulators on investigations into suspected fraud and other offences (such as insider dealing). Fraud is covered in Jersey legislation, giving the authorities investigative powers and enabling the JFSC as insurance regulator to take appropriate action. Claims fraud is a punishable common law offence in Jersey. Insurers and intermediaries are required to ensure business is conducted to a high standard of integrity (e.g., Principle 1 of the Insurance Codes). There are no general requirements that insurers allocate resources and have effective procedures and controls to deter, detect, record, and report fraud. But, insurers must ensure that assets are safeguarded and liabilities controlled to minimize risk of loss due to fraud (Insurance Codes, paragraph 3.2.1.3). Fraud vulnerability and controls are included in the risk model so risks at insurers are assessed and action is taken, e.g., in on-site visits, to confirm that firms focus on fraud controls. The JFSC does not actively promote cooperation between insurers on fraud and there are no databases on the island. This reflects the nature and limited size of insurance business on the island.
Assessment	Observed
Comments	The JFSC has a range of powers to ensure that insurance companies address fraud risks and it covers the issues in its risk assessment of firms and in its supervisory work. It should consider including in the Insurance Codes some requirements that address specifically the need for insurers to allocate resources and have effective procedures and controls to deter, detect, record and report fraud.
Anti-money laundering, combating the financing of terrorism	
Principle 28.	Anti-money laundering, combating the financing of terrorism The supervisory authority requires insurers and intermediaries, at a minimum those insurers and intermediaries offering life insurance products or other investment related insurance, to take effective measures to deter, detect and report money laundering and the financing of terrorism consistent with the Recommendations of the Financial Action Task Force on Money Laundering (FATF).
Description	The JFSC has extensive legislation applicable to insurance: the Proceeds of Crime (Jersey) Law 1999; the Terrorism (Jersey) Law 2002; the Drug Trafficking Offences (Jersey) Law 1988; and the Money-Laundering (Jersey) Order 2008 (ML(J)O). The legislation is complemented by regulatory requirements and guidance provided by the Handbook for the Prevention and Detection of Money Laundering and the Financing of Terrorism for Regulated Financial Services Business (AML/CFT Handbook). Article 23 of the IB(J)L requires a permit holder to inform the JFSC of changes of directors, chief executive, key persons, or shareholder controllers. Article 14 of the FS(J)L provides similar provisions with regard to principal persons and key persons. These Articles enable the JFSC to prevent a person from holding or being the beneficial owner of a significant or controlling interest, or holding a management function in an insurer or an intermediary, if they do not appear to be fit and proper based on the information

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	provided with the application and as a result of checks carried out by the JFSC with the police and other law enforcement agencies. Articles 29 to 34 of the IB(J)L deal with the disclosure of information. This provides the JFSC with the authority to disclose information in order to co-operate effectively with the domestic financial intelligence unit (FIU) (In Jersey, this is the Joint Financial Crimes Unit), and domestic enforcement authorities as well as with other supervisors, both domestic and foreign. The JFSC has taken supervisory action to enforce compliance with its requirements. AML/CFT issues are covered in on-site visits. In respect of the key FATF provisions, the requirements on AML/CFT include customer due diligence on customers (Part 3 of ML(J)O), enhanced measures with respect to higher risk customers (Article 15 of the ML(J)O), records retention for five years (Articles 19 and 20 of ML(J)O), monitoring for complex transactions (Article 11 of ML(J)O); reporting of suspicious transactions to the FIU (Article 21 of the ML(J)O); and developing internal programs (Article 11 of the ML(J)O). Paragraph 3.2.1.10 of the Insurance Codes requires that Category B permit holders provide an annual declaration to the JFSC, signed by the Directors, acknowledging that the Directors accept and understand their responsibilities for compliance with relevant regulatory and anti-money laundering legislation etc. There is, however, no such requirement for Category A firms where these take the form of branches.
Assessment	Observed
Comments	The JFSC has a well-developed set of requirements. See also the IMF's assessment, carried out in November 2008, of Jersey's compliance with the FATF's AML/CFT standards, using the 2004 Methodology.