

(Legislative Supplement No. 19)

LEGAL NOTICE NO. 45

THE INSURANCE ACT

(Cap. 487)

THE INSURANCE (INVESTMENTS MANAGEMENT)
GUIDELINES, 2017

IN EXERCISE of the powers conferred by section 3A (1) (a), (b) and (g) of the Insurance Act, the Insurance Regulatory Authority issues the following guidelines:—

THE INSURANCE (INVESTMENTS MANAGEMENT)
GUIDELINES, 2017

1. These guidelines may be cited as the Insurance (Investments Management) Guidelines, 2017. Citation.
2. In these guidelines, unless the context otherwise requires— Interpretation.
“senior management” means the principal officer and the direct reports.
3. The purpose of these guidelines is to— Objectives.
 - (1) ensure that the assets of insurers are managed in a manner that is consistent with insurers’ risk profiles, liquidity needs and liability profiles;
 - (2) set out the expectations of the Authority regarding investment management which are consistent with international best practices and the Insurance Core Principles issued by the International Association of Insurance Supervisors;
 - (3) highlight guiding principles which are critical to insurers in establishing sound and prudent investment management practices; and
 - (4) ensure that the investments are made in a sound and prudent manner taking into consideration the following basic parameters of investment—
 - (a) security, in which insurers shall invest in low-risk assets to ensure preservation of capital;
 - (b) liquidity, in which insurers shall invest in assets that can easily be disposed of without affecting the price;
 - (c) diversification, in which insurers shall invest assets in a wide range of instruments so as to spread the risk; and
 - (d) return, in which insurers shall invest in instruments that generate high income while taking into consideration the associated risks.

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| <p>4. An insurer shall develop an investment management framework which is supported by an effective and efficient governance mechanism.</p> | <p>Governance structures.</p> |
| <p>5. (1) The roles and responsibilities of the board of directors with regard to an insurer's investment management shall be to—</p> <ul style="list-style-type: none"> (a) develop the investment policy and ensure it is implemented; (b) regularly review the investment policy; (c) ensure that the investment management is handled by competent and experienced persons of integrity; (d) examine the reports on the quality and performance of the investment portfolio by having a clear understanding of the investments in which the insurer seeks to invest including their characteristics and related risks; (e) follow up on any activity, transaction or situation that is irregular or problematic; (f) ensure that internal control mechanisms are in place; (g) specify the content and frequency of investment management reports to be submitted to the board; and (h) where the investment function is outsourced, the board shall bear the ultimate responsibility. <p>(2) The examination by the board in paragraph (1)(d) shall include an examination of the—</p> <ul style="list-style-type: none"> (a) changes in investments and their performance in light of market trends and the insurer's risk profile; (b) major investment positions taken as well as the depreciation and write-off of investments; and (c) investments issued or guaranteed in connection with transactions between affiliated legal persons or associates as they could constitute a source of conflict of interests. | <p>Responsibility of the Board of Directors.</p> |
| <p>6. The roles and responsibilities of senior management with regard to insurer's investment management shall be to—</p> <ul style="list-style-type: none"> (a) implement the insurer's investment policy; (b) develop and implement procedures with respect to investment activities; (c) periodically analyse and assess the quality and performance of individual investments as well as the overall portfolio and report to the board of directors on a regular basis and upon request; and (d) establish internal control mechanisms to ensure that investments comply with the insurer's policies and procedures and with statutory and regulatory requirements. | <p>Responsibility of senior management.</p> |

7. The roles and responsibilities of the risk management function with regard to an insurer's investment management shall be to—

Responsibility of the risk management function.

- (a) monitor adherence to the approved investment policy and regulatory obligations;
- (b) note and promptly report breaches in adhering to the approved investment policy or regulatory obligations;
- (c) review risk management activities with regard to investments; and
- (d) ensure that the investment policy is aligned to the overall risk management policy of the insurer.

8. (1) An insurer shall conduct an audit of the insurer's investment activities for the timely identification of internal control weaknesses or deficiencies in the insurer's management information systems.

Responsibility of audit function.

(2) Where the audit is performed internally, it must be independent of the officers responsible for implementing the insurer's investment policy.

(3) The roles and responsibilities of the internal audit function with regard to an insurer's investment management shall be to—

- (a) evaluate the independence and effectiveness of the insurer's investment management functions;
- (b) periodically review the insurer's asset portfolio to ensure that it is consistent with the insurer's investment policies and procedures as well as regulatory obligations;
- (c) monitor adherence to the approved investment policy and regulatory obligations;
- (d) give assurance that the insurer's investments are secure and are made and kept in the name of the insurer; and
- (e) assess the effectiveness of the internal controls.

9. (1) An insurer shall design and implement effective internal controls.

Internal controls.

(2) An insurer shall establish adequate systems of internal control to ensure that assets under its control are managed in accordance with the insurer's overall investment policy and statutory and regulatory requirements.

(3) The internal controls of an insurer shall include segregation of duties, approvals, verifications and reconciliations.

(4) The internal controls with respect to investment shall include—

- (a) concentration limits;

- (b) valuation and recording of investments in accordance with generally accepted accounting principles. special attention should be paid to investments used for arbitrage trading and hedging purposes;
- (c) responsibilities of depositories and the terms and conditions of custodial arrangements;
- (d) cash flows generated through investments such as income, repurchase and redemptions at maturity; and
- (e) reporting on investments.

10. (1) Where an insurer uses services of an investment manager, the manager shall be qualified and competent to carry out the assigned task. Investment manager.

(2) The insurer shall monitor the work of the investment manager to ensure that the insurer's strategy is being adhered to.

11. An insurer shall, in managing its investments, develop—

Management of investments.

- (a) an investment policy;
- (b) systems that allow the identification, measurement and assessment of investment risks and the aggregation of these risks at different levels;
- (c) adequate procedures for the measurement and assessment of investment performance;
- (d) adequate and timely internal communication of information on investment activities;
- (e) procedures to identify and control the dependence on and vulnerability of the insurer to key personnel and systems;
- (f) procedures for any changes of the investment strategy should be specified;
- (g) internal controls, such as segregation of duties, approvals, verifications and reconciliations;
- (h) internal procedures to review the appropriateness of the investment of the investment policies and procedures; and
- (i) rigorous and effective audit procedures and monitoring activities to identify and report weaknesses in investment controls and compliance.

12. (1) An insurer's investment policy shall set the principal parameters within which the insurer shall manage its investment activities. Investment policy.

(2) The policy shall be sufficiently supported to ensure effective management particularly in respect of situations where the risk is considered to be high.

(3) The investment policy shall address the following elements—

- (a) insurer's risk appetite and tolerance levels;
- (b) the scope of investment risks including market risk, insurance risk, credit risk, liquidity risk and operational risk;
- (c) types and characteristics of the investments;
- (d) expected returns and the purpose of the investments such as liquidity, matching, pledging of collateral, hedging and trading;
- (e) concentration limits;
- (f) investments decision criteria, standards and other parameters;
- (g) processes relating to intra-group management of investment activities;
- (h) procedures for analysing and evaluating investments when deciding to make an investment and when carrying out a transaction;
- (i) accountability for all investment transactions;
- (j) investment authorisation criteria and limits;
- (k) asset-liability matching;
- (l) monitoring and control of investments; and
- (m) any other element that the Authority may direct.

13. (1) An insurer shall hold sufficient assets to support their liabilities including technical provisions and capital requirements.

Asset-liability management.

(2) An insurer shall develop an asset-liability management policy which should be appropriate to the nature, scale and complexity of the insurer's operation.

(3) An insurer shall invest in portfolios well diversified across different asset classes and within particular asset class.

(4) An insurer's investment decisions should be guided by portfolio perspective rather than individual asset-return or risk characteristics.

(5) An insurer shall put in place effective procedures for monitoring and managing their asset or liability positions to ensure that their investment activities and asset positions are appropriate to settle their liabilities when they become due.

14. (1) An insurer shall develop and maintain documented investment procedures that are subject to effective oversight.

Investment procedures.

(2) The investment management procedures shall allow an insurer to manage its investment activities properly particularly with respect to acquisitions or disposals.

(3) Investment decisions shall be based on analyses and valuations that take into account in particular the insurer's investment risk tolerance levels and expected returns.

(4) Investment decisions shall be supported with full documentation.

(5) An insurer shall evaluate and understand the source, scope and types of risks associated with an investment activity.

(6) An insurer shall implement adequate procedures for the management of investment risks while giving consideration to the interrelationships and interdependencies between the risks to which the insurer is exposed.

(7) An insurer shall use adequate methods to measure the insurer's risk exposure and establish techniques for mitigating the risks.

(8) An insurer shall consider various internal and external factors that are likely to affect the risks it is exposed to, the risk tolerance levels, its objectives, the general economic climate, interest rates, legal and regulatory requirements.

(9) An insurer shall establish reporting mechanism so that the risks encountered are communicated to all parties involved in its investment activities.

(10) An insurer shall determine the value of its investments in an objective manner and ensure that the information used to do so is reliable.

(11) An insurer shall establish investment analysis tools for analysing—

- (a) the nature, characteristics and liquidity of the insurer's investments; and
- (b) the degree of exposure by the insurer to various risks for each type of investment and for the investment portfolio as a whole particularly in light of concentration limits.

15. (1) An insurer shall set concentration limits in light of its capital requirements and shall cover all its exposures in particular with respect to issuers and counterparties.

Concentration limits.

(2) The concentration limits should be expressed in relation to the following parameters among others—

- (a) types of investments and their attributes including risk, returns, maturities, security, subordination, conversion features and complexity;
- (b) liquidity and transferability of the securities;
- (c) geographic zones and industry sectors; and
- (d) counterparties.

(3) An insurer shall, for the purposes of calculating the capital adequacy, apply the following concentration limit factors in case of a general insurer—

- (a) deposits in any one financial institution or group of related companies shall be ten percent of total assets;
- (b) shares of any one institution or group of related companies shall be ten percent of total assets;

- (c) property shall be thirty percent of total assets; and
- (d) investment in related parties shall be ten percent of total assets.

(4) An insurer shall, for the purposes of calculating the capital adequacy, apply the following concentration limit factors in the case of a life insurer—

- (a) deposits in any one financial institution or group of related companies shall be ten percent of total assets;
- (b) shares of any one institution or group of related companies shall be ten percent of total assets;
- (c) property shall be fifty percent of total assets; and
- (d) investment in related parties shall be ten percent of total assets.

16. (1) Where an insurer is part of a group of companies the insurer shall manage its investments in accordance with the framework established for the group.

Intra-group
management.

(2) Where an insurer is part of a group of companies, investment procedures shall be established for the insurer and shall stipulate how risk associated with the investment of other entities within the group is managed.

(3) The procedures shall cover certain situations that could entail greater risks for one or more entities within the group or for the group as a whole.

(4) Where an insurer outsources management of investment to a specialised entity within the group or to an outside service provider, the insurer shall maintain responsibility for ensuring that the risks related to its investments are managed in a sound and prudent manner.

(5) An insurer shall ensure that its investments are secure and are made and kept in the name of the insurer.

17. (1) An insurer shall monitor and control their investment portfolio effectively and efficiently.

Monitoring and
control of
investments.

(2) An insurer shall establish management practices to properly monitor and control its investments both individually and on a portfolio basis.

(3) An insurer shall put in place adequate systems of internal control to ensure that investment activities are supervised.

(4) An insurer shall analyse and assess its portfolio on a regular basis to ensure quality and performance of its investments.

(5) An insurer shall adjust and monitor the selection of investments, particularly when material discrepancies arise with respect to actual versus expected returns or a significant change takes place regarding the risk associated with one or more investments.

(6) An insurer shall ensure that the investment portfolio is diversified to mitigate investment risks.

(7) An insurer shall prepare regular and timely reports which describe the company's exposure which shall report on the—

- (a) details of and comments on investment activity during the period and comparison with corresponding previous period;
- (b) details and values of invested assets by type;
- (c) an analysis of credit exposures by counterparties;
- (d) details of any regulatory or internal limits breached in the period and the actions taken thereto;
- (e) status of asset-liability matching;
- (f) planned future activity; and
- (g) details of positions of assets and liabilities.

18. (1) An insurer shall routinely carry out scenario analysis and stress-testing so as to identify vulnerabilities and assess their impact.

Scenario analysis
and stress-testing.

(2) An insurer shall consider appropriate assumptions, design scenarios and carry out stress-testing in order to assess the impact of adverse market conditions on its investments while taking into consideration the risks associated with the investments such as interest rate risk, liquidity risk, foreign exchange risk, credit risk and counterparty risk.

(3) The scenario analysis and stress-testing shall be discussed among the board of directors, senior management and staff assigned to manage the insurer's investments. This shall be supported by appropriate documentation.

(4) Where an insurer identifies any vulnerability that could impact on its investment, the insurer shall take appropriate action.

19. Where the Authority determines non-compliance with the provisions of these guidelines, it may take any intervention prescribed in the Act.

Enforcement.

20. (1) Where the Authority determines that an insurer has not met the requirements of these guidelines, the Authority may impose any or all the remedial measures to correct the situation in accordance with the provisions of the Act.

Remedial
measures.

(2) An insurer shall, within thirty days, inform the Authority if the insurer has breached or is likely to breach the prescribed capital requirements.

(3) A notice by an insurer of the breach or potential breach of these guidelines shall state the remedial action taken or planned to be taken and the period when action shall be taken.

(4) The level of supervisory intervention by the Authority to address a breach or potential breach of these guidelines shall be determined by the extent of the breach or potential breach.

21. Where the Authority determines that an insurer has not met the provisions of these guidelines, the Authority may impose any or all of the administrative sanctions to correct the situation in accordance with the Act, including—

Administrative sanctions.

- (a) require an insurer to invest in a specified manner;
- (b) restrict or prohibit an insurer from investing in certain asset classes or individual assets to safeguard insurance funds;
- (c) suspend, dismiss, disqualify or revoke the appointment of an individual in a position as board member, member of the senior management or key person in a control function;
- (d) impose additional reporting requirements;
- (e) withdraw or impose conditions on the business license; and
- (f) take any other action as may be deemed necessary.

Dated the 9th February, 2017.

ABDIRAHIN H. ABDI,
Chairman,
Insurance Regulatory Authority.

GODFREY K. KIPTUM,
Acting Commissioner of Insurance
and Insurance Regulatory Authority,
Chief Executive Officer.