



Financial Services Commission
Mauritius

Insurer's Association of Mauritius, Annual General Meeting

27th March 2014

Speech of Ms. Clairette Ah-Hen, Chief Executive, Financial Services Commission

Mr. Dev Manraj, Financial Secretary

Mr. Kris Lutchmeenaraidoo, President of the Insurers' Association of Mauritius

Mr. Raj Makoond, Board Member of FSC and Director of the Joint Economic Council

Members of the Insurer's Association of Mauritius

Members of the Press

Colleagues from the FSC

Ladies and Gentleman

I wish you all a very good afternoon!

At the outset, allow me to express my sincere appreciation for the honour that I have been given to address this distinguished audience for the Annual General Meeting of the Insurer's Association.

The insurance sector in Mauritius has performed relatively well over the past years – with gross premium received for Long Term insurance business over MUR 13 billion (2012 - MUR 13.9 billion, compared to 2011 – MUR 13.0 billion) and over MUR 6 billion for General Insurance Business (2012 – MUR 6.18 billion compared to 2011 – MUR 6.25 billion); and total assets of MUR 92.6 billion and MUR 12.4 billion in 2012 compared to MUR84.2billion and MUR11.7billion in 2011 for companies in the long term insurance business and the general insurance business respectively.

We have, over the years, worked together on several issues affecting the sector. Last year (2013), we have observed that on average 52% of motor claims and 15% of non-motor claims were settled

under one month following the flash floods of 30th March and that an average of 44% of total motor claims and 65% of total non-motor claims were recoverable from reinsurers.

On this note, allow me to seize this opportunity to commend the industry for having acted promptly to take the necessary measures in dealing with the settlement of claims following last year's flash floods. But, efficient settlement should not be on an exceptional basis, however consistent throughout the year, notwithstanding, of course the due diligent verification as well as collaboration with other agencies like MVIAC/NTA to prevent abuse and misdemeanours.

Market Conduct: Insurers Leading the Way

Ladies and gentlemen,

We have regular interactions with industry partners and we will continue to do so and even improve on it, not only when drafting new sets of laws and regulations.

Financial services sector is one in which effective and efficient regulation is critical to consumer welfare, to businesses and to the economy as a whole. It is vital to ensure that consumers are well-informed about the products they are purchasing and that the businesses are treating the consumers fairly. In 2006, the FSC introduced guidelines for complaints handling by insurers to encourage insurers to adopt enhanced procedures in relation to consumer complaints. These guidelines set the minimum criteria which the FSC expects to find in an insurer's complaints handling mechanism.

The effective implementation of the guidelines by insurers have reduced the number of complaints received at the FSC and it may be said that insurers are leading the way in this area, as changes in legislation last year brought a similar approach to the banking sector and today, banks are implementing the same model of mechanism for their complaints handling. This is also one of the models that jurisdictions in the region are looking to bring improvement to their financial services sector.

Last month, we launched a consultation exercise to seek the views and comments of the industry and the public on the Insurance (Insurance Agents) Rules and the Insurance (Insurance Salespersons) Rules.

The guidelines on advertising and marketing of financial products for our licensees, an initiative started last year, will also be issued shortly. We would like to place on record the collaboration we received from the Insurers' Association in this matter.

Development of competency standards

As you are aware, the FSC is working on the development of competency standards for the financial services sector. The standards development process, as in many cases, was initiated with the insurance sector, and has now been extended to the licensees in the Securities Industry. The objective for the insurance sector is to develop competency standards for insurance intermediaries. These standards are expected to create an environment which will instill public confidence in the insurance products and will boost consumers' interest in these products.

We have considered the comments received from interested parties on the October 2013 consultation paper on the proposed competency standards for salespersons, agents and brokers - the insurance intermediaries. This week, we issued our report detailing responses to the comments and proposals. The Commission has invited further comments on these proposals to be submitted by 11th April. We expect to hear from you very soon!

Corporate Governance

For the future development of the Mauritius International Financial Centre (IFC), we cannot ignore the pressures to harmonise the practices in Corporate Governance internationally. Good Corporate Governance for the insurance sector is of paramount importance to maintain its relationship with policyholders and sustain long term performances for the industry.

As insurers are custodian of policyholders' money / assets, we remind you of the importance of full compliance with all corporate governance standards.

Risk Management

There is no need for me to draw your attention on the importance of risk management – for this is your forte - assessing and measuring the impact of past and potential future events. Such events potentially impact both the asset and liability sides of the insurer's balance sheet (statement of financial position), income and cash flows.

We all know that the insurance regulatory framework provides for insurers to put in place effective systems and functions to address the key risks it faces as well as regulatory obligations to ensure that these are adequate for the nature, scale, and complexity of its business. This overall responsibility of developing and executing such a comprehensive and robust system of risk management lies with the insurer's board and management.

However, we have noticed during our previous on-going off-site and on-site monitoring exercises that some insurers are only perfunctory in terms of the disclosure requirements of the Code of Corporate Governance. This leads us to now question the 'comply or explain' basis for the financial services sector, for insurers in particular. Where, in substance, insurance companies probably lead in risk management, many of the annual reports are mere boiler plate legalistic disclosures which do not do justice to the sector.

Ladies and gentlemen

Allow me to share with you some of the other developments, which the FSC as regulator for the insurance sector has to address.

Capital Adequacy

A sound solvency regime is essential to the supervision of insurance companies, and regulatory capital requirements are a fundamental part of a solvency regime. Insurers face uncertainty both as underwriters of risk and as business enterprises. In addressing this uncertainty, the insurer's capital is a shock absorber against losses. Having sufficient capital is critical for an insurer's ability to meet its obligations to policyholders and creditors and to finance future growth in its business.

A solvency regime should also establish requirements for the adequacy and appropriateness of the capital resources used to meet the regulatory capital requirements. This includes the determination of the amount of capital available for solvency purposes and criteria for assessing the suitability and quality of elements of capital for inclusion in capital resources for solvency purposes.

Stress Testing Issues

In the pursuit of our objective to adopt a modern risk-based approach to supervision, we will continue to review and reinforce our supervisory tools. We'll review our solvency models, and subsequently, the stress test the parameters therein and update them accordingly, if needed. We rely on your usual cooperation to build a sound risk management culture and look for frank and fair discussions.

IAIS Principles

To maintain the reputation of the Mauritius IFC, we need to demonstrate compliance with standards set by international standard-setting organisations like the International Association of Insurers' Association (the 'IAIS'). The FSC is committed to implement IAIS Core principles. Mauritius is highly rated in terms of international best practices, and is also well positioned amongst African countries, as shown by the latest SADC peer review assessment.

However, there are two issues which still need to be addressed - urgently: Enterprise Risk Management and Group Wide Supervision. The improvement of group-wide supervision of financial groups will enhance financial stability of group members. Enterprise Risk Management is a fairly new requirement from the IAIS (but not so new in terms of Corporate Governance). The supervisory regime establishes enterprise risk management requirements for solvency purposes that require

insurers to address all relevant and material risks. In the course of this year, the FSC will embark on the implementation of Good Enterprise Risk Management guidelines and as for Group Wide supervision, this is being discussed at the level of the Financial Stability Board Regional Consultative Committee for Sub-Saharan Africa FSB-RCG (SSA) – BoM, FSC and MOFED represent Mauritius on the FSB-RCG (SSA).

IFRS 4 (Phase II)

In June 2013, the International Accounting Standards Board (IASB) issued a revised Exposure Draft of its proposals for a new insurance contracts financial reporting standard. The Exposure Draft has been developed to improve the transparency of the effects of insurance contracts on an entity's financial position and financial performance and to reduce diversity in the accounting for insurance contracts. At present, we do not have a comprehensive standard (International Financial Reporting Standards (IFRS) which deals with the accounting for insurance contracts. As a result, there are substantial differences in the accounting policies used by different companies to account for insurance contracts. The IASB is committed to issuing a Standard on insurance contracts, and expects to finalise a Standard for insurance contracts after reviewing the responses to this Exposure Draft. Insurers will have to adapt to these changes. Since our Companies Act 2001, we have no choice in adopting IFRS or not. It is better to that we start the discussion right away. Many of your Finance Directors, CFOs and accountants who worked in the insurance sector at the end of the last millennium will remember the accounting standard debate which led to IFRS4.

Financial Inclusion – Accessibility of Products/Services

On another note, I would like to draw your attention on financial inclusion and broadening access to financial services which have gained importance over the years, and today ranks amongst the priorities on the agenda of international standard-setting bodies and regulators around the world.

Enhanced access to financial services helps reduce poverty and improves social and economic development. For financial inclusion to be a success, improved access to financial services is a must. The Commission is fully participating in the Finscope survey initiated by the Ministry of Finance and Economic Development. Through this survey, we hope to get a holistic perspective of

the financial services sector and thus be able to establish a micro insurance regulatory framework which will improve access to formal insurance services to the low income population.

Collaborative approach with the industry

The growth of the financial services sector depends largely on the role played by its main stakeholders. In order to develop new products and services, the collaboration of operators is crucial. The FSC has, over the years, maintained a collaborative approach with the insurance industry because we firmly believe that cooperation and on-going consultation with operators are vital for the development of the sector.

Many of the new laws, regulation and rules would not have been done in such a seamless manner without the collaboration of experts in the insurance sector and your association. To name a few, the Private Pension Schemes Act 2012, the draft insurance compensation fund regulations 2013 and the New reporting rules for long term insurance companies.

Ladies and Gentleman,

Captive Insurance

Captive Insurance is not new in Mauritius, though not that popular being mainly in the form of PCCs and SPVs. Worldwide, it is one of the fastest growing areas in the insurance sector with above 5,000 captives created since 1970. Many companies are turning towards the creation of a captive to self-insure their risks and avoid extra cost that insurers charged.

Again, like all things in finance, it is a question of balancing risk and return (in this case reduced costs as return). You should not view Captive insurance as taking away business from Insurers, but instead consider the opportunities that having such legislation may bring to professional risk management experts, which insurers are.

As our Jurisdiction need to develop the financial services sector to create more employment for our young people, we cannot ignore the increasing number of Captive insurers domiciled in the world and the FSC aims to position Mauritius as a Captive domicile of choice. While allowing this type of captive to continue to develop, the main objective is to attract more first party insurance captives from corporations or multinational groups from African and the Indian Ocean region. Starting with Pure Captives will allow our jurisdiction to build experience as a captive domicile before considering enlarging in a second stage the scope to allow for Third-Party Captives.

In addition, the objective of the new legislation on Captives will bring international best practice to the current framework for the regulation and supervision of captive insurance business. We have submitted our proposed draft bill to the Ministry / our policy makers to take it forward and to fruition and I am sure you will learn more about it in the coming weeks.

Conclusion

In 2013, financial and insurance activities accounted for 10.1% of GDP, and have witnessed a growth rate of 5.4 %. The insurance sector is an important contributor to the overall financial services sector which today, is a vital pillar of our economy. Such growth and resilience to the financial crisis should not lead to complacency and short-termism in our strategy; cutting margins to get bigger market share is also not the way forward if we want to build a sound insurance sector and protect policy holders. We must sustain growth of the sector through the deepening and increasing of the value of our services.

As for the FSC, smarter regulation remains a critical aspect for a sound financial sector, which is safer and more stable for investors and policy holders. The FSC will continue to forge a robust regulatory framework with the right balance between regulation and business development. And we rely on the ongoing collaboration of all our stakeholders to uphold the financial services sector.

May I take this opportunity to congratulate the outgoing Executive Committee for a year of achievements, meeting the various challenges faced in 2013 and wish the incoming one all the best.

Thank you for your kind attention.

Clairette Ah-Hen

27th March 2014