Guernsey Financial Services Commission

GUIDANCE NOTE ON SUPERVISORY LADDER OF INTERVENTION

STAGE – Circumstances	**GFSC INTERVENTION**
Normal Operations	
Risk based supervisory monitoring activities applying to all licensed insurers. Capital resources are greater than 105% of the PCR.	Standard supervisory measures which may include: • Scrutiny of applications and issuance of licences • Review and assess wide range of requests for regulatory approval – e.g. loans to parent, change of controller • Risk based approach to the on-going monitoring of companies based on information obtained from annual returns • Risk based scheduling of routine on-site examinations The GFSC carries out macroprudential surveillance, analyses industry-wide issues and trends and publishes statistics.
Stage 1 - Early Warning	
Identification of deficiencies in policies or procedures or the existence of other circumstances that could lead to the development of problems. The situation is such that it can be remedied, by a collaborative approach between the Licensee and the GFSC, before it impacts on the financial viability of the Licensee. Capital resources are between 100% and 105% of the PCR.	The GFSC will discuss the concerns with the Licensee and request measures to rectify the situation. Remedial actions will be monitored by the GFSC and may involve requests for additional information and/or follow-up examinations.

<table>
<tr><th>STAGE – Circumstances</th><th>GFSC INTERVENTION</th></tr>
<tr><td colspan="2">Stage 2 – Risk to financial viability or solvency</td></tr>
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Risks are identified which suggest weaknesses in the insurer’s systems and controls which could adversely impact upon its future solvency. This may include, inter alia:

Evidence of previous non-compliance with solvency requirements
Deterioration in earnings or the profitability of the Licensee's business
Concerns identified regarding the data, methods and assumptions for determining actuarial reserves
Exposure to off-balance sheet risk
Evidence that the Licensee has insufficient liquidity to meet expected claims
Corporate Governance failings leading to deficiencies in management procedures or controls
Other concerns arising from:

a shareholder controller in financial difficulties
systemic issues of non-compliance with regulatory requirements
rapid growth
qualified report of external auditor
increased risk exposure as identified by business plan

The situation can be resolved collaboratively but more formal regulatory action may be required to protect policyholders.
Capital resources are between 50% and 100% of the PCR.
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The GFSC will intensify risk dialogue with the Licensee with the objective of mitigating the increased risk.
The Licensee is notified of concerns and required to submit and implement a recovery plan appropriate to the nature, scale and complexity of its risks that will return the Licensee to Normal Operations within a defined period of the underfunding being detected.
The scope of on-site examination and/or frequency of on-site examinations may be enlarged or increased.
An external party (inspector) may be required to perform a particular examination relating to the adequacy of the Licensee's procedures for the safety of its creditors, shareholders and policyholders, or any other examination that may be required in the public interest, and report thereon to GFSC at the Licensee’s expense.
An independent actuary may be required to perform a review of the appropriateness of the Licensee's technical provisions at the Licensee’s expense. The GFSC may require adjustments to the Licensee’s actuarial methods and assumptions.
Business restrictions appropriate to the nature, scale and complexity of the Licensee may be imposed. These may be measures and/or actions provided by the Licensee or conditions imposed on the Licensee’s licence covering such matters as:

restricting certain transactions that will reduce the capital resources (such as dividend payments, capital repayment, voluntary repayments of the Licensee’s own loans, and the distribution of with-profit bonuses to policyholders)
restrictions on new business
restrictions on investments

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	- restrictions on risky and complex transactions where it is not ensured that they serve to improve the solvency position - other restrictions tailored to the specific circumstances The GFSC will maintain a regulatory 'watchlist' to monitor such companies until they have been rehabilitated. Status of Licensee discussed with other relevant regulatory bodies.

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<tr><th>STAGE – Circumstances</th><th>GFSC INTERVENTION</th></tr>
<tr><td colspan="2">Stage 3 – Future financial viability in serious doubt</td></tr>
<tr><td>The risks outlined as per stage 2 suggest significant weaknesses in the insurer’s systems and controls which are highly likely to impact upon its future solvency.

Capital resources are between the MCR and 50% of the PCR.</td><td>The GFSC may enhance the Stage 2 measures where applicable and/or initiate further actions including:

• modifying the Licensee’s capital requirement
• thematic on-site examinations focussing on the particular areas of concern. Such examinations may involve the engagement of external specialists or professionals to assess certain areas such as asset values, appropriateness of actuarial reserves, etc. The Licensee will be required to meet the costs of such examinations
• removal and replacement of Directors, Officers or Controllers

The GFSC will develop a contingency plan for taking rapid action if necessary due to further changes in circumstances.

Status of Licensee discussed with other relevant regulatory bodies.</td></tr>
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STAGE – Circumstances	GFSC INTERVENTION
Stage 4 – Licensee not viable/insolvency imminent	
The Licensee has failed to identify and rectify risks to solvency at an earlier stage in the ladder resulting in an unacceptable level of risk: • that policyholder obligations will not be paid; and/or • that the reputation of the Bailiwick will be damaged; and/or • that debts cannot be met as they fall due. Capital resources are less than the MCR.	The GFSC notifies the Licensee's management and board of directors of intended regulatory intervention measures that will be taken unless immediate actions to restore solvency are undertaken. It must be apparent to the GFSC within a short period of time whether the actions initiated by the insurer are likely to rapidly restore its financial position. Such immediate actions include: • increase of capital resources or reduction of requirement capital • voluntary transfer of the entire insurance portfolio • partial transfer of the insurance portfolio, resulting in capital resources being above the MCR subsequent to the transaction New business restrictions will be imposed on the Licensee or existing restrictions expanded. The GFSC contingency plan will be implemented. Other relevant regulators are notified of proposed regulatory intervention measures to be applied to the Licensee. The GFSC may apply to the Court for an order to wind up or place the Licensee into administration if the remedial measures do not lead to success in the short term. The GFSC will consider the conduct of controllers, directors, auditors and actuaries in the context of Corporate Governance requirements and, if appropriate, will consider regulatory action against the individuals.