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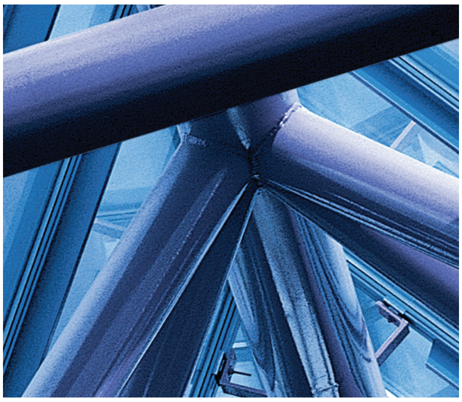
The Qatar Financial Centre Regulatory Authority Issues New Rules for Insurance Firms Operating from the Qatar Financial Centre

The Qatar Financial Centre Regulatory Authority ("the **QFCRA**") has recently issued new rules which amend the Insurance Business Rules 2006 (PINS) (the "**2006 Rules**"). The Insurance Business (Risk Management Capital Adequacy and Miscellaneous) Amendments Rules 2013[1] (the "**2013 Rules**"), issued in October 2013, will come into force on 1 January 2015. The 2013 Rules are intended for insurance firms authorised by the QFCRA.



Michiel Visser
Partner, Doha
T: + 974 440 64323
E: mvisser@whitecase.com

Charbel Abou Charaf
Associate, Doha
T: + 974 440 64315
E: charbel.aboucharaf@whitecase.com

The QFCRA aims to align the prudential framework for insurance business in the Qatar Financial Centre ("**QFC**") with international best practice, to facilitate the continued development of the insurance industry in Qatar. To that end, the 2013 Rules focus on tightening risk management and solvency requirements, enhancing the rules concerning valuation of assets and liabilities, and the QFCRA's scope to request information from insurers who are members of a group.

Discussed below are several distinctions between the 2006 Rules and the 2013 Rules, covering areas of enterprise risk management, capital adequacy, valuation, insurance groups and investments.

Enterprise Risk Management

In addition to the general requirements of the risk management strategy for all authorised insurance firms set out in the 2006 Rules, the 2013 Rules introduced a specific list of requirements which must now also be satisfied for risk management strategy, risk management policy and an 'own risk and solvency assessment' ("**ORSA**").

An insurer's risk management strategy must include a business continuity plan to ensure maintenance, or timely recovery of critical business operations in the event of any disruptions. The strategy must also address all material financial and non-financial risks to which an insurer is likely to be exposed, as well as outlining the policies and procedures for monitoring and managing risk. A pro-transparency feature of the 2013 Rules is the requirement for an insurer to procure approval from its governing body in respect of the insurer's risk management strategy, and any actual or anticipated material deviation from the approved risk management strategy. The QFCRA will, as of 2015, require an up-to-date approved copy of the risk management strategy.

1 The New Rules are available online, in English at *http://www.complinet.com/net_file_store/new_rulebooks/q/f/QFC_PINS_AMDT-2013.pdf*

White & Case LLP
Alfardan Office Tower, 7th Floor
P.O. Box 22027
West Bay, Doha
Qatar
Tel: + 974 440 64300
Fax: + 974 440 64399

The ORSA, introduced by the 2013 Rules, is intended to represent both a management tool for the insurer's governing body and a supervisory tool to alert the QFCRA to any solvency issues. The ORSA will allow the insurer an opportunity to annually assess its present and future solvency positions and the adequacy of its risk management framework, using internal knowledge of exposure, risk profile and tolerance records. The insurer's governing body must participate in the ORSA and approve the report generated on foot of the exercise. An insurer operating as a branch entity in the QFC is not required to conduct ORSA.

Capital Adequacy

The amendments in the 2013 Rules with regards to capital adequacy serve to refine the requirements and remove redundant guidance contained in the 2006 Rules. The 2013 Rules, for example, exclude insurance entities operating in the QFC as branches from the minimum capital requirement rules[2] and remove rules regarding the nature and type of stress scenarios to be contained in the insurer's systems and controls.

The 2013 Rules stipulate that the minimum capital requirement for an insurer is the higher of US$10 million and the insurer's risk-based capital requirement. In the event that the insurer's eligible capital falls below its minimum capital requirement, the insurer must immediately inform the QFCRA and stop effecting new contracts of insurance. The QFCRA will intervene to the extent it determines fit, and if necessary, may withdraw the insurer's authorisation to operate.

Valuation

In terms of valuation requirements, the 2013 Rules are not intended to establish an accounting basis for an insurer's general purpose financial statements, nor preclude an insurer from adopting a more prudent method of valuing assets and liabilities than it might use for other reporting purposes. Rather, the amendments in the 2013 Rules aim to match an insurer's supporting assets to its insurance liabilities using consistent valuation, and to ensure that the rate of any discount applied in calculating the present value of an insurance liability represents a prudent estimate of the yield expected to be earned by the assets backing that liability.

With regards to projecting cash flows in relation to long-term insurance business, the 2013 Rules provide insurers with a list of mandatory considerations, including with respect to: (i) expected investment earnings, (ii) expected reinsurance recoveries, (iii) mortality and morbidity rates (iv) expenses to be incurred in carrying out the insurer's long-term insurance contracts, and (v) options and guarantees.

The changes made to the valuation rules will require insurers to have adequate regard to the profile of liabilities and the quality of the assets supporting them.

Insurance Groups

The 2013 Rules impose an additional level of scrutiny on an insurer that is a member of a group, in order to increase transparency as to the structure, risk profile and overall governance of the group (in so far as these affect the insurer) and to assess and buffer against the risk to an insurer arising from its membership of the group.

One requirement introduced by the 2013 Rules is that the insurer must, upon request, provide the QFCRA with a statement of the consolidated financial position of the insurer's group. The QFCRA may also ask to be furnished with additional information.

The 2013 Rules also dictate that certain types of proposed intra-group transactions must be inquired into, and approved by the insurer's governing body before they are entered into. Furthermore, the QFCRA has authority to give an insurer a direction in relation to certain intra-group matters. The powers conferred upon the QFCRA in this context are in addition to any of the QFCRA's other powers.

Investments

In an effort to improve the management of investment risk by insurers, the 2013 Rules require insurers to hold supporting assets of a value at least equivalent to the amount of its insurance liabilities. The amendments introduce asset admissibility criteria and a 'prudent person' test for investments of an insurer, and insist that the insurer uses actuarial principles to measure liabilities. The 2013 Rules also clarify the point at which liabilities arising out of insurance contracts cease to be part of the insurer's liabilities – that is, not until the obligation giving rise to the liability expires or is discharged or cancelled.

Conclusion

The 2013 Rules aim to streamline and further strengthen the regulatory framework within the QFC, by introducing more robust capital adequacy and valuation rules, regulating the dealings between members of insurance groups and enhancing the management of investment risk. The QFCRA intends to work with insurance firms to implement the rules in time for the effective date in early 2015. The 2013 Rules aim to facilitate and support the continued growth and development of the QFC as a leading insurance centre in the region.

2 Such insurers will be subject to the regulatory capital requirements in their jurisdiction of incorporation.