

# **IRAQI INSURANCE DIWAN**



## **MARKET CONDUCT MANUAL**

### **NOTES**

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# Market Conduct Examinations

## Introduction

The aim of the Market Conduct Handbook Notes and Checklists is to add to the knowledge and expertise of Iraqi Insurance Commission staff, in carrying out on site inspections of insurance companies.

The Market Conduct Handbook Notes and Checklists need to be continuously updated to reflect the regulations that will be brought into force in 2006, and to respond to market conditions and developments.

Market conduct examinations are essential if the Commission is to ensure that the insurance sector is properly supervised.

### Benefits of Examinations:

- Helps to ensure the financial solvency of companies
- Helps to ensure that customers are treated fairly
- Helps build trust in the insurance industry

## Principles of Market Conduct Examinations

Key principles of carrying out market conduct examination are that examinations should:

- Identify problems before they become too serious and unmanageable
- Be carried out using a sound methodological approach, based on internationally accepted principles
- Be proportional to the potential or real risks found within insurers.
- Be targeted, so that the areas where potential problems are most likely, or where evidence suggests problems already exists, are inspected

## Planning and Coordination

Inspections must be done on a planned, systematic basis. This ensures that the aims of the inspection are clear at the outset and that all relevant areas are investigated.

Inspections need to be coordinated by one person within the Commission. This person also ensures the proper exchange of information within between the Divisions within the Commission. Information in the Financial and the Legal Affairs Division of the Commission can assist the Technical Division of the Commission, prior to carrying out an inspection.

An annual Market Conduct Inspection Plan needs to be created.

## **Communication**

The results of inspections must be communicated to the appropriate people within an insurance company.

The people with responsibility for legal compliance, corporate governance, and internal systems and controls need to be aware of the results.

Who is responsible within the insurer for ensuring that any remedial actions are carried out, needs to be made clear.

## **Types of Inspections**

Market conduct examinations are essential tools for effective insurer supervision.

Market conduct examinations are of two types:

1. Off site inspections
2. On site inspections

### Off site inspections

Off site inspections rely on information submitted to the Commission. This includes reports and returns covering premiums, claims, reserves, complaints, changes in business plans and new product lines.

### On site inspections

On site inspections rely on information collected from surveys, interviews, analysis of files, records, systems, procedures and controls, whilst at an insurers premises. Sources of information may include rate books, internal correspondence (hard copy and electronic), claims files, financial records, board minutes, business plans, budgets, personnel records, policy schedules, litigation papers, procedural instructions, reinsurance treaties and third part service agreements.

## **Planning a Market Conduct Inspection**

Identify companies with a significant market share in specified line of business, for example a company controlling 0% of the market, according to the latest Report and Accounts

Carryout an offsite analysis of the insurer.

Review the returns for each company for

- Business volume by line of business
- Loss ratio by line of business
- Reserves

Identify the priority companies to be analysis based on:

- Significant changes in reserves
- Significant changes or unexpected loss ratios
- Major participation in market sectors where competition is very weak or nonexistent
- Major participation in market sectors where competition is extremely strong
- Complaint volumes

## **Logistics and Notification**

- Announce the planned inspection 30 days before the inspection is to take place.
- The Commission may decide not to give advance notice if circumstances warrant this.
- An internal pre examination meeting is held to:
  - Discuss the reason for and the type of inspection
  - Agree and organise resources, timings, responsibilities and logistics
  - Agree the communication plan and communication channels with the insurer
  - Document the procedures for collection, analysing and reporting on data collected
  - Agree sampling methodology and sample sizes
  - Agree standards for testing purposes.

A standard Inspection report should be used.

## **The Scope of the Inspection**

The Market Conduct Handbook Checklists assist the Commission in focusing in on the areas to be checked. The handbook is an evolving document.