



Final Consolidated Report

DEVELOPMENT OF INSURANCE SECTOR IN LAO PDR



29 December 2015





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**Prepared by
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All of the views in this report are the responsibility of the author but all factual corrections or other observations will be welcome and can be sent to russell.leith@gmail.com.

Abbreviations

ADB	Asian Development Bank
AEC	ASEAN Economic Community
ASEAN	Association of South East Asian Nations
CPD	Continuing Professional Development
FTPD	Foreign Trade Policy Department
IAIS	International Association of Insurance Supervisors
ICPs	Insurance Core Principles
IFRS	International Financial Reporting Standard
IT	Information Technology
Lao PDR	Lao Peoples Democratic Republic
MOIC	Ministry of Industry and Commerce
SMEs	Small and Medium-sized Enterprises
WB	World Bank

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Executive Summary

1. **Project purpose:** The insurance sector in Lao PDR has operated in a regulatory void since the Insurance Law was enacted in 2011, with the Insurance Regulator undertaking a limited role. This regulatory gap in insurance has impacted on Lao PDR's obligations under WTO, with the insurance sector identified as non-compliant.
2. This technical assistance project focuses on what policy and regulatory actions, strategies and plans are required to ensure WTO compliance by Lao PDR in the insurance sector. The result of the technical assistance is the development of appropriate *policy and regulations* for Lao PDR and, a detailed action plan over the next three years to *establish a regulatory environment* that promotes best practice and transparency in the insurance sector.
3. **Current situation:** Currently there are 12 licensed insurance companies. Five companies have licenses, but are not yet operating, and four companies have started the license application process. This evidences a growing insurance industry, but one that is operating in a regulatory void with limited oversight and supervision.
4. In October 2015 the Ministry of Finance (MOF) established a standalone unit (Insurance Regulator) within the Department of Government Investment Enterprise and Insurance Management (DGIEIM) to be responsible for the regulation of the insurance sector. This was the first time MOF had separately identified a specific function for insurance within its ministry. However, the Insurance Regulator is under-staffed and currently does not have the requisite skills and resources to undertake its duties, including developing the necessary regulatory framework for the insurance sector and supervising the industry accordingly.
5. **Development of Regulatory Environment:** To support regulatory development in Lao PDR the long-term goal is compliance with the Insurance Core Principles (ICPs) developed by the International Association Insurance Supervisors (IAIS). ICPs represent best practice for insurance regulators, with achievement of 28 ICPs to meet compliance requirements. However, not all 28 ICPs are currently achievable or appropriate for Lao PDR.
6. This report recommends that the Insurance Regulator aims to comply with six ICPs over the next three years, being ICP 1: Conditions for Effective Supervision; ICP 10: Internal Controls; ICP 11: Market Analysis; ICP 12: Offsite Supervision; ICP 13: Onsite Supervision; and ICP 14: Preventative and Corrective Measures. Compliance in these areas will enable the Insurance Regulator to meet the basic regulatory functions to supervise the insurance market and ensure companies are transparent and providing consumers with proper protection.
7. **Other barriers to sector development:** In addition to the Insurance Regulator not carrying out the main functions expected of an Insurance Regulator, the other issues identified as barriers to the development of the insurance sector in Lao PDR include: the Insurance Regulator not publishing information on the insurance sector due to its limited ability to collect information in an efficient way from all insurers, not completing an analysis of the financial and market information from insurers, and not reporting on this information to the market. The current location of the Insurance Regulator within MOF gives the appearance that there is a potential conflict of interest with the role of the Insurance Regulator and the separate regulatory role of monitoring government investments in state owned enterprises.
8. **Low level of public awareness of insurance:** The establishment of an industry association to represent the insurance industry and support the Government initiatives to develop the insurance sector is long overdue. There is a very low level of the awareness of insurance by

members of the public, this results in a low level of demand for insurance products. The low level of enforcement to ensure that vehicle owners comply with the requirements for compulsory third party motor vehicle and motor bike insurance, also limits demand for insurance.

9. To achieve what is necessary to overcome the lack of regulation, limited capacity and the public's low level of awareness of insurance will require a focused development program, with technical assistance, over the next three years. The main actions required in the next 12 months to the end of 2016 in order to develop the insurance sector include:
 - **Demonstrating the independence of Insurance Regulator:** Demonstrating to the market that there are “Chinese walls”¹ between the operations of the Insurance Regulator and the other units within MOF that supervise state owned enterprises. A starting point to achieve the necessary awareness of the insurance industry will be the publishing of reliable and current statistics on the industry and the evaluation of the financial position of each of the operating insurers to ensure they are financially sound.
 - **Providing targeted on-the-job training through regional cooperation:** Insurance Regulator staff should work together with neighboring Insurance Regulator's staff (such as Thailand, Vietnam or Cambodia) to train how to analyze insurers accounts, undertake on-site inspections and, undertake the product approval process.
 - **Enacting and implementing key regulations:** Implement the regulations on licensing, product approval, brokers, agents, solvency, reserves, investment and reporting; and
 - **Resourcing Insurance Regulator:** Providing the tools for the Regulator's staff to do their job in a professional and confidential manner.
10. From 2017 the focus of the development program will be on more capacity building for staff in the Insurance Regulator's office in the areas of financial and risk analysis to improve the supervision of the insurers. Other actions required include implementing IT systems and databases for the Insurance Regulator and continuing to implement the necessary insurance sector regulations.
11. Significant investment funding and technical assistance is needed from development partners to:
 - Establish a transparent regulatory environment, with an effective regulatory framework.
 - Improve skills and capacity in the insurance Regulator's office.
 - Increase staffing levels and provide support tools and resources, such as IT equipment and systems.
12. The return on investment will be a fully functional and expanded insurance sector that will contribute to the economy by covering commercial and personal risk for all sectors of the community. This process should be started as simply as possible, through phased regulatory

¹ “Chinese walls” described in Wikipedia as a business term describing an information barrier within an organization that was erected to prevent exchanges or communication that could lead to conflicts of interest. For example, a Chinese wall may be erected to separate and isolate people who make investments from those who are privy to confidential information that could influence the investment decisions.

framework development, knowledge sharing and skill transfer with other ASEAN Insurance Regulators.

Introduction

13. This report recommends a focused development program for the insurance sector and regulatory environment to transform the sector into a transparent and vibrant industry that will contribute to the economy of Lao PDR, and mitigate potential risks faced by the population and infrastructure in the country.
14. The proposed program will contribute to the Government's strategy of improving trade and private sector development in Lao PDR and was initiated under the Second Trade Development Facility (TDF-2), a multi-donor program financed by Australia, the European Union, Germany, Ireland and the World Bank. TDF-2, implemented by the Ministry of Industry and Commerce, seeks to support the implementation of the Government's trade and integration priorities, outlined in the 2012 Diagnostic Trade Integration Study (DTIS) Roadmap, contributing to improved competitiveness and diversification, focusing outside the natural resource sectors. TDF-2 has three main components:²
 - Trade facilitation, trade policy and regulations;
 - Diversification and competitiveness; and
 - Mainstreaming aid for trade.
15. The main objective of the development program is to contribute to the Government's overall trade and private sector development strategy, by strengthening the governance of the regulatory environment affecting trade services and in particular insurance. As part of the program, the insurance component seeks to support Laos' WTO commitments in the insurance sector.
16. On the basis of Laos' domestic context, industry structure, financial sector level of development, and overall macroeconomic conditions, the proposed program has been developed in close collaboration with the Laos' authorities and seeks to develop the requisite regulatory and supervisory framework for the insurance sector.

Context

17. The insurance industry has received limited attention from donor programs. Prior to this project the only examination of the industry took place in 2010 culminating in a report, "Implications of WTO Accession for Insurance Sector of Laos",³ which examined the insurance sector and set the context for this project. The 2010 report highlighted a number of important areas that are still relevant today, such as the need to develop regulations, to strengthen the Insurance Regulator's skills, and increase compliance across a number of areas. Limited progress has occurred since the 2010 report, aside from the implementation

² Fuller details on the scope of the TDF-2 are outlined in the Project Appraisal Document, November 1, 2012.

³ Authored by Montague Lord, as Team Leader and Trade Specialist, and Bounma Vongxay, as the Domestic Consultant.

of the Insurance Law (2011), which is not supported by any implementing regulations or an active Insurance Regulator.

18. It is within this context that this project has been developed and with a large number of actions needed to establish the insurance sector and the regulatory environment. This project is the first step in a longer-term development program needed to get the insurance sector in a position similar to its ASEAN neighbors.

Review of Insurance Sector: Findings

19. The following section outlines the Consultant's observations and findings of the status of the insurance sector in Lao PDR as a result of a series of consultations held with government officials and insurance sector participants. Appendix 1 summarizes the methodology and approach used by the consultant, and outlines the stakeholders who contributed to the information contained in this report.

Background

20. The regulatory function within the MOF lacks a number of essential elements within its office to start properly functioning as an Insurance Regulator. The current staff have limited knowledge of what is required to develop and implement a supervisory framework.
21. The regulation of the insurance sector is undertaken by a separate unit within the MOF, the Department of Government Investment Enterprise and Insurance Management (DGIEIM),⁴ which has four divisions, one of which is the insurance division. Each division has allocated roles and responsibilities and the director responsible for the insurance division has five staff who work on insurance matters only.
22. With twelve insurance companies operating, eleven non-life and one life company, the insurance sector is considered competitive, in a market where demand for insurance products remains low. The primary demand and income growth driver is from investors and developers, who originate from foreign investment activity interests in Lao PDR with large development projects and the downstream business activities that arise from these large projects.

Regulatory measures to strengthen the environment

23. The consultant has drafted 15 regulations (refer appendix 6). The Insurance Regulator has decided that these will be implemented in the following order of priority: licensing, product approval, brokers, agents, solvency, reserves, investment, and reporting. This order addresses the financial stability and consumer protection issues that may arise during the next one to two years.
24. The aim is to enact these regulations in 2016, with the remaining seven regulations drafted by the consultant to be enacted in 2017 and 2018. There are many more regulations required. However, the 15 drafted are considered the most essential to help to ensure that the financial stability of the insurers in Lao PDR is maintained and customers are protected.

⁴ Formalized by a ministerial decision in October 2015.

Other Challenges for the Insurance Regulator

Collection of information

25. The Insurance Regulator is currently using a template from the ASEAN Insurance Supervisors Association to collect and collate financial and market information from the insurance companies. Using this template will not produce the outcome required for the Insurance Regulator to adequately perform an appropriate analysis of the financial information from the insurers to supervise the market.
26. For example, information from six insurance companies as at 31 December 2013 has been consolidated into an Insurance Sector Spreadsheet. This spreadsheet was reviewed by the Consultant and is of limited value. It contains a number of information gaps and important information needed for calculating financial and risk ratios is not in the template. The Insurance Sector Spreadsheet is primarily designed to provide summary information to the ASEAN secretariat and not as a tool to assist the supervision of the insurers in the market.

Analyzing financial and market information

27. Significant training is needed for the staff on financial analysis in order for them to properly perform the Insurance Regulator's roles and responsibilities.

Structural and Policy issues:

28. There is a need for the Insurance Regulator to avoid the potential for insurers to claim that the Insurance Regulator has a conflict of interest, due to its location within DGIEIM of MOF. This becomes an important factor as a number of the insurance companies have government ownership.
29. The establishment of an insurance industry association to represent the insurance companies' interests and to support the Government's initiatives will help to develop the insurance sector. The delays in setting up the industry association, are due to changed requirements of the Ministry of Interior, this process has frustrated the insurance companies.

Operational issues

30. The operational issues identified include:
 - Adequacy of staffing levels: there are six staff focused on insurance in DGIEIM. This is the minimal number of staff required to complete the development of the regulations, and also to monitor the current market;
 - Capacity building requirements;
 - Appropriate logistic support with an IT system that is supported by a data base, internet and PCs for staff.
 - An upgrade of the accounting and analysis software within DGIEIM for the Insurance Regulator;
 - The development of a public awareness program on insurance; and
 - The development of a plan to enhance the Insurance Law (2011), given that MOF has received strong feedback on some of the limitations of the law as it is currently drafted.

Market constraints

31. The insurance companies were all consistent with their feedback to the consultant on what the main market constraints in the insurance sector were. Many of these constraints are those already identified by the Insurance Regulator, and Government officials, and include:
- *Public awareness on Insurance:* The lack of information on the insurance market in Lao PDR. For example, the insurance companies all expressed a different opinion on what the percentage of cars insured for compulsory third-party motor vehicle insurance was;
 - *Insurance HR constraints:* The lack of insurance-related skills in the workforce is a large constraint to internal operations. Companies indicated that while they are able to hire Laotians, they mainly sourced their staff from Thailand, where the staff have some insurance knowledge and training on specific insurance programs. Senior and executive employees in some of the companies are often from other countries;
 - *Lack of demand for insurance:* Insurance is not a demand product in Lao PDR. The insurers view this as the biggest market constraint;
 - *Lack of compliance with compulsory insurance requirements:* Currently there is a low level of compliance for the compulsory third-party motor vehicle and motor bike insurance. The insurance industry see a significant opportunity for the sector to grow its gross premiums through better and more effective enforcement of the purchase of compulsory insurance for motor vehicles, motor bikes and workers compensation;
 - *Priority requirement for road safety:* There are efforts by insurance companies to promote insurance as a product to help people protect the risks in their lives. Efforts have been made to promote road safety with government ministries;
 - *Absence of Insurance Association:* The Insurance Regulator is keen for the insurance sector to set up an Insurance Association and the insurance companies are also keen for this to happen;
 - *Absence of clear policy guidelines on industry risk and solvency:* The consultant has not seen any insurance company accounts. However, from the advice given to the consultant during meetings with the companies, it appears that all of the insurance companies are adequately capitalized for the level of risk covered. All insurers consider solvency requirements a high priority to be put in place. The lack of policies on reserving was also raised as an issue to be resolved quickly. The insurers do not appear to share information and there was no evidence of coinsurance arrangements taking place between local insurance companies to cover higher levels of risk;
 - *Reinsurance:* Each company has reinsurance arrangements in place. The consultant is not in a position to comment on the quality of the reinsurance arrangements, as no information on this aspect was publically available.
 - *Need for Consumer Protection:* Each insurer was very keen to see the development of consumer protection. Transparency is the best form of consumer protection. Otherwise, consumers are susceptible to potentially opaque practices. The insurance companies have developed their own best practices to help provide consumer protection and develop the "trust" factor for the insurance companies;
 - *Use of insurance agents:* Insurance services appear to be available in most parts of Laos, through either branch offices or agents. There are a large number of agents given the current size of the insurance sector in Lao PDR, and each company has a training and

management plan to ensure that the agents perform their role in a way that does not damage the trust factor for the insurance company.

Review of neighboring ASEAN countries

32. A review of other countries regulatory organizations and systems can help to guide the development options for the insurance sector. All other countries in ASEAN, apart from Myanmar, have a much more established regulatory environment than Lao PDR. In ASEAN, Singapore and Malaysia are very sophisticated markets for insurance services, Indonesia and Philippines have completed significant developments in the last ten years, and their insurance markets are developing well.
33. The consultant is familiar with the regulatory organizations in Thailand, Vietnam and Cambodia. These countries are at different levels of development in terms of their market and the regulatory environment. However, each of these insurance regulators are well placed to provide development support to Lao PDR. These countries are in close proximity to Lao PDR, which offers the opportunity for the Insurance Regulator in Lao PDR to work with these three insurance regulators in a more cost effective manner than with the regulators in other ASEAN member countries.
34. Thailand is considered a mature market (although penetration levels for insurance are low), with a wide range of insurance products and services available and up to 500 staff employed within the regulator's office.⁵ The regulator in Thailand is very active in the market, ensuring all companies comply with the reporting regime and the Insurance Commission is actively monitoring through onsite supervision. The Insurance Regulator could learn from the monitoring approach employed by the Thailand insurance regulator, but we need to be cognizant of the staff resources Thailand uses for these processes, compared to the limited resources that will be available in Lao PDR.
35. Vietnam is a market that still needs to get to a mature level. It has international insurance companies who are lifting the standards in a market where penetration levels for insurance are very low. The insurance regulator in Vietnam is quite well structured, but it still has a significant way to go to develop effective monitoring techniques, as it currently competes a limited number of onsite inspections. Vietnam has a regulatory framework in place that needs to be upgraded to account for new initiatives in the insurance sector. Lao PDR can observe and learn from how Vietnam continues to develop its regulations.
36. Cambodia is a relatively immature market that is slowly developing. Life insurance has only been sold in Cambodia since 2011, while non-life insurance has been in the country for more than 25 years. The Cambodian insurance regulator has steadily developed its capacity and now completes regular onsite and offsite monitoring on all insurers. In the last five years, the Cambodian regulator has increased its staff from 16 to 23 to supervise 15 insurance companies; five years ago there were only seven insurance companies. There has been strong donor support for the development of the insurance regulator's office in Cambodia in the last eight years. Cambodia has spent time on developing a database for the collection and analysis of insurance company financial and market data. It is now committed to a program to develop the skills of the staff to complete the analysis of the insurers' data and

⁵ Office of Insurance Commission Thailand website

report this information to the market. Following this process will be beneficial for the Insurance Regulator, as this is an important area to develop quickly in Lao PDR.

37. Each of these three countries has systems, policies and processes which will be useful for the Insurance Regulator to consider and replicate, to assist it with the development of the Lao PDR insurance market. The most significant advance by each of these regulators in the last five years has been the development of specialist functions within the insurance regulator's office. The consultant recommends that strong relationships are established with each of the three regulators to provide better opportunities to share ideas and possibly staff in the future. An option for the future may be for each of countries to consider the joint use of an insurance regulators IT system for supervision, as this may be a cost effective option for each of the regulators.
38. A review of the largest regulators (Singapore, Malaysia, Philippines and Indonesia) in ASEAN is considered of limited value for this report. The three neighboring countries reviewed offer many learning and support functions for Lao PDR for at least the next five years. It is important for the Insurance Regulator to take advantage of any opportunities of assistance offered by the large regulators for training and other assistance, but when doing so the Insurance Regulator needs to be mindful of the level of sophistication in these markets, and how relevant the training or assistance will be for Lao PDR staff.

Insurance Core Principles

39. The IAIS has developed 28 insurance core principles "ICPs" that have been established to help guide the insurance regulators around the world to set up a consistent approach and standards in the supervision of insurance. A number of the ICPs are only relevant for mature, well-developed markets. The IAIS does not expect developing countries to be in a position to comply with all of the ICPs, as they are not relevant for the maturity level of the insurance market.
40. In summary, the ICPs deal with:
 - *The Supervisory System*: its objectives, authority and process;
 - *The Supervised Entity*: licensing, suitability of managers and other "fit and proper" issues, corporate governance and internal controls;
 - *Ongoing Supervision*: reporting to supervisors, off-site monitoring, on-site inspections, enforcement and sanctions;
 - *Prudential Requirements*: risk assessments by management, capital adequacy, solvency and investments;
 - *Markets and Consumers*: including consumer protection; and
 - Anti-money laundering.
41. The ICPs are quite detailed, and under each ICP essential criteria and advanced criteria are spelt out. In the consultant's opinion, the use of the ICPs in their complete context is not required for the current state of development in the Lao PDR market.

42. However, there are a number of ICPs that are fundamental to the development and ongoing supervision of any market and each regulator needs to develop a plan to comply with these fundamental ICPs.
43. Meeting the compliance level for the following ICPs outlined in the table below is an important part in the development of the capacity and development plan for the Insurance Regulator in Lao PDR.



Table 1: Fundamental ICPs to be complied with in the next three years.

ICP No	Name of ICP	Summary of ICP Detail
ICP 1	Conditions for effective insurance supervision.	<p>Insurance supervision relies upon:</p> <ul style="list-style-type: none"> <input type="checkbox"/> A policy, institutional and legal framework for financial sector supervision. <input type="checkbox"/> A well-developed and effective financial market infrastructure. <input type="checkbox"/> Efficient financial markets. <p>On the pure licensing side, the Insurance Regulator has ensured that only licensed insurers sell insurance products in Lao PDR. The financial market infrastructure needs to continue to develop in Lao PDR as it presently is at a rudimentary stage; a matter which is obviously outside the control of the Insurance Regulator.</p>
	Gaps in existing Lao PDR Environment	
	<ul style="list-style-type: none"> <input type="checkbox"/> The Insurance Regulator is not a fully functional or resourced office. <input type="checkbox"/> The Insurance Regulator is not operating as an independent body. <input type="checkbox"/> A Regulatory framework is not in place. <input type="checkbox"/> There is limited transparency in the insurance market due to very limited reporting of market information. 	
ICP 10	Internal Control	<p>The Insurance Regulator requires insurers to have in place internal controls that are adequate for the nature and scale of the business. The oversight and reporting systems allow the board and management to monitor and control the operations.</p> <p>The purpose of internal control is to verify that:</p> <ul style="list-style-type: none"> <input type="checkbox"/> The business of the insurer is conducted in a prudent manner in accordance with policies and strategies established by the board of directors; <input type="checkbox"/> Transactions are only entered into with appropriate authority; <input type="checkbox"/> Assets are safeguarded; <input type="checkbox"/> Accounting and other records provide complete, accurate, verifiable and timely information; and <input type="checkbox"/> Management is able to identify, assess, manage and control the risks of the business and hold sufficient capital for these risks. <p>A system of internal control is critical to effective risk management and a foundation for the safe and sound operation of an insurer. It provides a systematic and disciplined approach to evaluating and improving the effectiveness of the operation and assuring compliance with laws and regulations. It is the responsibility of the board of directors to develop a strong internal control culture within its organization, a central feature of which is the establishment of systems for adequate communication of information between levels of management.</p> <p>It is an essential element of an internal control system that the board of directors receive regular reporting on the effectiveness of internal</p>

ICP No	Name of ICP	Summary of ICP Detail
		control. Any identified weakness should be reported to the board of directors as soon as possible so appropriate action can be taken.
	Gaps in existing Lao PDR Environment	
		<ul style="list-style-type: none"> □ The Insurance Regulator is not familiar with the internal control requirements. However, the companies are operating with a level of internal controls to meet their shareholder and company law requirements. □ It is unknown how consistent and at what standard internal controls are being applied by all insurance companies. □ There are no regulations on governance or the requirements of the insurance companies' board of directors.
ICP 11	Market Analysis	<p>ICP 11 states: "Making use of all available sources, the Insurance Regulator monitors and analyses all factors that may have an impact on insurers and the insurance markets. It draws conclusions and takes action as appropriate."</p> <p>Essential criteria:</p> <ul style="list-style-type: none"> □ Regular analyses of market conditions are conducted; □ Past developments and future trends and scenarios are dealt with; □ Market analysis is both quantitative and qualitative using public and confidential sources; □ Aggregated insurance market data is readily available to the insurance industry and other interested parties; and □ Market-wide systematic reporting is required.
	Gaps in existing Lao PDR Environment	
		<ul style="list-style-type: none"> □ The Insurance Regulator does not collect any market information; □ There is no Insurance Association in place to collect market information which happens in other countries; and □ The Insurance Regulator does not have a tool to use for the collection and analysis of market information.
ICP 12	Offsite supervision	<p>A Summary of essential criteria is as follows:</p> <ol style="list-style-type: none"> a) The Insurance Regulatory: <ul style="list-style-type: none"> - Sets requirements for submission of regular and systematic financial and statistical information, actuarial reports and other information; - Scope and frequency are defined including audit needs; - Requires an annual audit opinion; and - Requests more information when needed. b) All insurers, whether government, private or a branch are dealt with in the same manner. There is no favoritism.

ICP No	Name of ICP	Summary of ICP Detail
		<p>c) The Insurance Regulator:</p> <ul style="list-style-type: none"> - Requires individual company and group reports; - Specifies accounting techniques etc. The valuation of assets and liabilities should be consistent, realistic and prudent; - Requires Off-balance sheet items to be reported; - Requires insurers to report on outsourced functions; - Requires senior management to be responsible for returns; - Requires inaccurate information to be corrected and imposes sanctions for deliberate misreporting; and - Maintains a framework for on-going monitoring.
	Gaps in existing Lao PDR Environment	
	<ul style="list-style-type: none"> <input type="checkbox"/> The Insurance Regulator does not collect any market information. <input type="checkbox"/> The Insurance Regulator does not have a tool to use for the collection and analysis of financial and market information. 	
ICP13	Onsite inspection	<p>Essential criteria are as follows:</p> <ul style="list-style-type: none"> a) There are wide ranging legal powers to conduct on-site inspections and gather information. b) The Insurance Regulator, external auditors or other suitably qualified parties verify information periodically on-site. c) On-site inspections can be full scale or focused. d) Findings are discussed promptly with the insurer and corrective action taken if needed. e) There is a follow up process. <p>On-site inspections can be extended to intermediaries and those providing outsourced functions.</p>
	Gaps in existing Lao PDR Environment	
	<ul style="list-style-type: none"> <input type="checkbox"/> The Insurance Regulator does not have the resources, systems or processes in place for onsite supervision. This is a significant gap that will need time and resources dedicated to this area to start the process on onsite supervision. 	
ICP 14	Preventive and corrective measures	<p>“The Insurance Regulator takes preventive and corrective measures that are timely, suitable and necessary to achieve the objectives of insurance supervision.”</p> <p>“Where insurers fail to meet supervisory requirements or where their continued solvency comes into question, the supervisory authority must intervene to protect policyholders”. The essential criteria are listed as being:</p>

ICP No	Name of ICP	Summary of ICP Detail
		<p>a. The Insurance Regulator has available and makes use of adequate instruments to enable timely preventive and corrective measures if an insurer fails to operate in a manner that is consistent with sound business practices or regulatory requirements.</p> <p>b. There should be a progressive escalation of action or remedial measures if the problems become worse or if management of the insurer ignores more informal requests from the supervisory authority to take corrective action.</p> <p>c. The Insurance Regulator has the capacity and standing to communicate with insurers, and insurers comply with such communication, to ensure that relatively minor preventive or corrective measures are taken.</p> <p>d. If necessary, the supervisory authority requires the insurer to develop an acceptable plan for correction of problems. Corrective plans include agreed and acceptable steps to be taken to resolve issues raised and an acceptable timetable.</p> <p>e. The Insurance Regulator initiates measures designed to prevent a breach of the legislation from occurring, and effectively deals with non-compliance with regulations that could put policyholders at risk or impinge on any other of the authority's objectives.</p>
	Gaps in existing Lao PDR Environment	
	<p><input type="checkbox"/> The Insurance Regulator does not have any processes or policies in place for any insurance company that gets into a difficult financial position.</p> <p><input type="checkbox"/> Skills and capacity need to be developed and in place for onsite and offsite supervision before Insurance Regulator considers addressing the gap for ICP 14.</p>	

44. Meeting the criteria required for these six ICPs will be a significant challenge for the Insurance Regulator. However, it must be considered the primary driver behind the capacity building and development plan.

Role of the Insurance Regulator

45. The fundamental objective of the Insurance Regulator in Lao PDR is to protect the interests of policyholders and prospective policyholders. To achieve this objective the Insurance Regulator needs to develop:
- An environment that promotes transparency through an established regulatory regime; and
 - An active monitoring and supervision role by completing of site and onsite supervision.

Organizational Structure and Staffing

46. The recently organized Insurance Regulator's office⁶ has six staff focused on insurance. In the consultant's opinion this is too few staff to adequately supervise the market of twelve companies and at the same time develop new regulations, new policies and processes.
47. The consultants proposed organization structure and recommended responsibilities for the staff for the Insurance Regulator are set out in Appendix 2.

⁶ In October 2015

48. The recommended priorities to action for staff in 2016 include:
- To develop and enact regulations on: licensing, product approval, brokers, agents, solvency, reserves, investment and reporting;
 - To set up a data base to maintain data and financial information collected from insurance companies for year ended 31 December 2013, 2014 and 2015;
 - To develop processes and policies for the Insurance Regulator's office (i.e. manuals); and
 - To assist with the establishment of the Lao PDR Insurance Association.

Capacity Development Plan

49. There are a number of priority development actions that need to happen in the immediate future to assist with the establishment of some basic functions within the Insurance Regulator's office. In the following paragraphs the consultant details the priority actions with the recommendation that the Insurance Regulator approaches donors through FTPD for additional funding assistance.
50. There are important steps needed in 2016 to develop the Insurance Regulator's department within MOF into a functioning regulator. It is necessary to complete a number of actions to ensure that Lao PDR is starting to meet the WTO obligations for insurance and to develop an insurance sector that has regulations in place and insurance companies that are supervised.

Priorities and actions needed in 2016

- Publish the insurance sector statistics for 3 years (year ended 31 December 2013, 2014 and 2015.);
 - Work with the insurance companies to establish the Insurance Association of Lao PDR;
 - Implement up to eight regulations to support the Insurance Law 2011;
 - Organize a visit to Office of Insurance Commission in Thailand to learn to how analyze insurance company financial accounts, complete onsite supervision and review the approval of product processes;
 - Develop an increased profile of the requirements of the Insurance Regulator's office within MOF; and
 - Focus the staff on their responsibilities of their role.
51. The Insurance Regulator does not have the capacity or the resources to complete these priority actions without getting additional assistance through either donor funding for training and additional technical assistance or using staff from other departments within MOF.
52. The table in Appendix 3 identifies the actions needed to deliver the identified priorities and the current gaps within the capability of the Regulators staff. The consultant's recommendations on how to overcome these gaps in resources or capability are summarized in the table. These recommendations will need to be considered by the Regulator. If the recommendations are agreed to, the next step will require a discussion with MOIC initially to determine what activities in the capacity building plan can be funded within the current World Bank funded program within MOIC.

Recommended capacity building and development plan for Insurance Regulator 2017 – 2019 (inclusive)

53. The recommendations in the plan in Appendix 4 provide a comprehensive set of activities that cover recommended training courses and development actions needed to set up the functions of the Insurance Regulator.
54. The activities listed are at a high level and when the activities have been prioritized, the next action required is to develop details of what needs to happen within the activity. The detail developed for each activity will help to drive the budget needed for the activity, the time and the resources needed for each activity. This will also help to finalize the plan for each year.
55. All of the activities may be completed independently or in a combination with other activities. The goal is to set up the Insurance Regulator's functions, up skill the Insurance Regulator's staff and develop a more effective environment in Lao PDR for the development of insurance. An initial review of the list will be required to develop the first year's plan and decide how the plan and the activities will be funded.
56. The projects that the Consultant recommends for the World Bank to review and consider funding in the next three years to help to improve the regulatory environment for insurance are highlighted in the left hand column of table 4 in light green.

Summary of the implications of the recommended plan

57. The proposed plan will require an intense commitment and a significant amount of funding which may not be realistic in the current environment. It is very important for the development of the insurance sector that more formal structures are set up within the Insurance Regulatory function in Lao PDR.
58. In the consultants opinion the highest priority areas and functions that need to be established in the next three years are:
 - The establishment of the Insurance Regulator's office with a full complement of staff as recommended by the Consultant by 2019;
 - Each staff member has regular access to a computer, good internet access and the staff member can use the software on the computer at a basic level. It is expected that each staff member will have at least a basic understanding of and can communicate in English;
 - To carry out their role the staff need to develop a much higher level of knowledge and expertise in the technical areas of regulation and insurance;
 - To understand how insurers and regulators can work together to develop an effective functioning insurance environment; and
 - The Insurance Regulator has the tools to support the staff in their roles and responsibilities, this will a focus on an Insurance Regulators IT system that will assist the Insurance Regulator monitor the performance of the insurance companies.

Proposed Legislative and Regulatory environment

Review of the Insurance Law 2011

Introduction

59. Ministerial instructions were developed to support the introduction of the Insurance Law in 2011. There are a number of areas which are detailed in the ministerial instructions that need to be reviewed during the next three years as they may impact on how regulations are enacted. The consultant's comments on the ministerial guidelines are summarized in Appendix 5.
60. As regulations are developed and enacted there will be a need to review each regulation in line with the Law and any Ministerial Instructions. Appendix 5 summarizes what regulations are required to be implemented in accordance with clauses in the Insurance Law.

Introduction

61. A sound regulatory environment needs to be based on the ICPs which are developed by IAIS. IAIS promotes standards that are appropriate for all insurance regulators.
62. IAIS's stated mission is to: promote effective and globally consistent regulation and supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders, and to contribute to global financial stability.⁷
63. Increasingly, insurance supervisors in emerging markets and developing economies are aware of the need to seek a healthy balance between regulation, enhancing access to insurance services and protecting policyholders. Governments recognize that enhanced access to insurance services helps reduce poverty and improve social and economic development. Regulated insurers and intermediaries are now seeing the business potential of the low-income population and are offering innovative products and distribution models. At the same time, informal entities grow in size and numbers.
64. Lao PDR has a very low starting point from which to introduce a supervisory framework for insurance compared to other emerging market countries. This is an advantage as Lao PDR can take the lessons learnt from other emerging market countries and use these lessons to establish a practical regulatory framework. However, offsetting this advantage is the limited experience and skills within the industry in Lao PDR and Insurance Regulator's office to implement a framework.
65. All insurance regulators who are members (currently around 200 regulators are members) of IAIS are expected to apply the 28 ICPs which cover governance, legal, solvency, valuation, enterprise risk management and group supervisory requirements at 3 levels of texts that include: Principles, Standards and Guidance.
66. The Lao PDR Insurance Regulator is not a member of IAIS. The consultant recommends Lao PDR joins IAIS to become part of the network of regulators and to get training assistance from IAIS development programs. However, not being a member of IAIS in the short term should

⁷ IAIS road map 2013 and 2014 published 9 October 2012

- not stop the Insurance Regulator from using the ICPs as the base to establish the supervisory framework.
67. ICPs require a risk-based approach to supervision. As Lao PDR has not commenced with a supervisory approach the consultant recommends that the Insurance Regulator forms the supervisory framework using a risk based approach.
 68. The stages to develop risk based supervisory framework (to be developed over a three to five year period) are:
 - Get stakeholders agreement on objectives and the of the framework;
 - Ensure that the regulations required to support the framework are developed and passed;
 - Supervision of the market starts with the primary focus on financial and operational aspects of the insurers by using simple surveillance tools;
 - Capacity and capability programs on supervision are implemented for staff;
 - Gradually introduce IT and supervision tools to more effectively keep surveillance of the market; and
 - The Insurance Regulator is fully staffed with a team trained in supervision skills and knowledge of the insurance market to supervise using a risk based approach.

Objectives of supervisory framework

69. The framework will be developed around the key risks that individual insurers need to address including: Business, Technical, Market, Credit, Liquidity and Operational.
70. In addition the supervisory actions and requirements to monitor the market need to be tailored to the nature, scale and complexity of individual insurers within Lao PDR. It is not worth focusing on regulations or actions from in Singapore or Thailand if the insurers in Lao PDR are not selling specific products or services.
71. The objective of the supervisory framework is:
 - To develop an insurance market that has financially sound insurers and is *transparent*:
 - (i) Transparency in the market place is one of the main drivers to achieve the customers trust in the insurance market;
 - (ii) The Insurance Regulator helps develop transparency by setting up a “level playing field” i.e. all insurers operate under the same regulations and processes for reporting. To achieve this the regulator needs to implement all of regulations that impact on the stability of the market and give the customer information about the insurer. In a transparent market insurers reporting to the Insurance Regulator conform to the reporting regulations and the Insurance Regulator reports to the market on the performance of all insurers in a regular and timely manner;
 - (iii) Regulations on disclosure requirements for the insurer’s products and services are an important stage to develop a high level of transparency in the market. The Insurance Regulator will be required to review all new products to the market. Determining how well the insurers meet the disclosure requirements will be evaluated over time. The evaluation of the insurers level of disclosure will occur either at the time of an onsite supervision or the follow up on a customer complaint;

- To ensure all insurers operate within the prescribed policies and processes issued by the Insurance Regulator;
- To ensure a high level of *customer protection*; and
 - (i) Customer protection is one of the primary reasons for regulations;
 - (ii) The Insurance Regulator is responsible for the protection policyholders / customers rights. To achieve this the Insurance Regulator must have in place the following; a licensing process for all insurers, a process to ensure all insurers meet the requirements of their license, regulations that are developed in a way to protect customers interests, a process for customers to voice their complaints against insurers, specifications on the requisite qualifications for the insurance companies directors and management , codes of conduct and practical training for intermediaries or insurance agents, the promotion and regulation of the activities for professional organizations connected with insurance. The Insurance Regulator has a process in place to call for information from insurers at any time and undertake the inspection of insurers, intermediaries, and other organizations connected with the business of insurance.
- To develop a framework that encourages growth of the market and at the same time is manageable by the Insurance Regulator.

Focus of supervisory framework

72. The focus will be on four main areas for which regulations will need to be developed and enacted, and processes developed on how the Insurance Regulator will supervise the market. These areas include:
- Corporate Governance; how effectively are the insurers governed;
 - Risk Management: how effectively are the insurers managing their risks and how does their management of their risks impact on the customers;
 - Group-wide Supervision: A number of the insurers in Lao PDR are part of organizations from other countries; is this a risk and how can it be managed? and
 - Macro prudential Surveillance: how well does the Insurance Regulator know what is happening in the market place? Is the information insurers are required to report on giving the Insurance Regulator a good understanding of what is happening in the market?

Sequencing of actions to develop a supervisory framework

73. The IAIS state that the ICPs apply to insurance supervision in all jurisdictions regardless of the level of development, the sophistication of the insurance market, and the type of insurance products or services being supervised. At the same time, it recognizes that supervisors need to adjust certain supervisory requirements and actions in accordance with the nature, scale and complexity of risks posed by individual insurers (i.e. the "proportionality principle").
74. Accordingly, the relevant ICPs, standards, and guidance identify areas in their text that provide supervisors with the flexibility to tailor supervisory requirements and actions so that they are commensurate with the risks posed by individual insurers to the insurance sector or to the financial system as a whole. While implementing and assessing the standards in a

jurisdiction, it is also important to consider the context, industry, structure and developmental stage of the financial system and overall macroeconomic conditions in Lao PDR.

75. All development actions should take into the account the requirement to implement actions relevant for Lao PDR but the actions are still based on international best practice.

Proposed development actions

76. The following development actions are recommended to take place in the order in which they are listed below:
- *Stakeholder engagement to agree on development of framework:* To confirm with stakeholders how the insurance market will function in the next three years without the full capability of the Insurance Regulator and a minimum number of regulations in place.
 - *Development and the enactment of regulations essential for stability of insurance market:* To develop and enact regulations that are a core component for the provision of market stability and consumer protection. Initial regulations to enact will include: licensing, solvency, reporting, product approval, agents, brokers, actuaries, accounting, investment and corporate governance.
 - *Basic supervisory actions of the insurance market:* Start the collection and analysis of financial information from insurers. It is important to identify key financial risks which may impact on the market.
 - *Build the capacity and capability of the Insurance Regulator:* Identify and action methods to build up the staff numbers in the Insurance Regulators office. Develop the understanding and knowledge of the staff on insurance regulations and supervision methods. Encourage the use of experts from other countries to work in the Lao PDR Insurance Regulator's office to help to deliver the basic supervision of the insurance market during this establishment phase.
 - *Review regulations implemented and develop further regulations to improve the insurance market.* Appendix 6 details the regulations drafted by the consultant for review by the Insurance Regulator. The current processes of the Insurance Regulator will require these draft regulations to be translated into Laos, internally reviewed by the Insurance Regulator, given to the insurers to review and provide feedback to the Insurance Regulator. The final phase of the process requires the Insurance Regulator to review the insurers' feedback and incorporate what is considered necessary into the regulations and submit the regulation to the Minister of Finance for approval.
 - *Development and implementation of surveillance tools and risk management skills for the Insurance Regulator:* to introduce and train staff on the use of more technology based solutions to collect and analyze insurers' financial, market and product data to complete a macro prudential surveillance of the market. Staff are trained in risk management and are able to develop a strategy to supervise the insurance market using a risk management approach.

Additional Regulatory measures which may further contribute to the establishment of the insurance Regulator

77. The insurance market in Lao PDR is operating now without a functional Insurance Regulator. The current staff have limited knowledge of what is required to develop and implement a supervisory framework. Within this environment in 2016 the first regulations to enable the Insurance Regulator to administer the Insurance Law 2011 will be enacted. The Lao PDR insurance market is dominated by insurance companies whose majority shareholder is from another country which at the moment requires these companies to meet the standards and requirements of the shareholder in another country who is supervised by an insurance regulator.

Regulatory environment 2016

78. To enact the number of regulations proposed in 2016 will take a significant amount of time and focus by the Insurance Regulator. It is the most important action the Insurance Regulator can take in 2016 as these regulations will help to establish some disciplines in insurers. It will ensure that each company reports key information to the Insurance Regulator in accordance with the regulations.
79. To help to minimize the challenge of enacting the new regulations with a low number of staff in the Insurance Regulator's office options will be developed to cooperate with other regulators in the region who could assist the effort required to enact the new regulations.
80. The majority of the insurance companies in Lao PDR have a foreign company as the major shareholder. This means that the company with the shareholding in the Lao PDR company will be reporting their financial information to the regulator in their home country.
81. ICP 25 on supervisory cooperation and coordination, sets out how the Insurance Regulator cooperates and coordinates with other relevant regulators and authorities subject to confidentiality requirements.
82. Using the principles in this ICP will give the Lao PDR Insurance Regulator the option of working with the regulators' in Singapore, Malaysia, Thailand and Vietnam on the way to supervise the insurers from those countries who have operations in Lao PDR. A memorandum of understanding could be developed with each country to determine how each regulator will be involved with the supervision of these insurers. In the short to medium term this is considered an option that will help to better supervise the Lao PDR market and over time it will improve the skills of the staff in Lao PDR.

Recommendation for additional Regulatory measures

83. It is recommended that the Insurance Regulator takes steps to put in place adequate coordination arrangements with the involved regulators on cross-border issues based on a legal entity and a group-wide basis to aid the comprehensive oversight of these legal entities and groups.
84. The main benefits of increased coordination and cooperation among involved regulators supervisors are:
- It facilitates all involved regulators in holistically reviewing international groups through regular face-to-face discussions and other processes;
 - It provides an efficient platform for information sharing across the group and for contribution of involved regulators to group-wide decisions; and

- It facilitates the application of coordinated decisions when appropriate.
85. The first step will be to set up a MoU that will take the form of a bilateral (between two jurisdictions) or multilateral (between more than two jurisdictions) agreement. The scope of a MoU could also vary, to reflect the circumstances of the particular group and the involved regulators. A MoU may relate to the exchange of information, based on formal request and /or in particular circumstances, such as emergency circumstances. In order for a MoU to work effectively, it is important that a strict confidentiality regime is ensured among all involved jurisdictions.
86. A MoU may extend to the allocation of identified aspects of what work each regulator will undertake.
87. The next step will be to develop a cross border regulation which will set out how the coordination of activities will happen, the regulation is likely to include:
- How and when information flows between involved regulators are to happen;
 - What the requirements for solvency and capital are required on a group basis and in Lao PDR;
 - How communication between the insurer and the Insurance Regulator is expected to occur; and
 - The information shared with the regulators in both countries.
88. This regulation will provide the requirements needed to administer the relevant clauses in the Insurance Law and ensure that any issues an insurer has in one country are quickly known to the regulator in the other country.

Review of issues and challenges for the insurance sector

89. The following tables summarize the main issues and challenges that will need to be addressed to establish a regulatory environment in Lao PDR⁸. The two tables set out in summary form the challenges and issues for the short term and the long term. The options listed in the table are not an exhaustive list and the Insurance Regulator is encouraged to discuss and continually focus on reviewing the set up the Insurance Regulator's office and make the changes needed to operate with the staffing proposed in the organization structure developed by the consultant⁹.
90. The purpose of the tables is to provide a ready reference to the main issues.

⁸ Note the details for the proposed remedies are detailed in the Capacity development plan for IR 2016 to 2018 and the capacity development plan for IR staff June to December 2015.

⁹ Refer to Appendix 2

Table 2: Challenges and Issues in the immediate term.

Issue / challenge	Impact or gap from the issue / challenge ¹⁰	Options to remedy
Limited number of staff in Insurance Regulator office	<ul style="list-style-type: none"> □ Unable to complete the establishment tasks of Insurance Regulator in a timely way; and □ A limited range of expertise in the Insurance Regulator's office for the technical aspects of the work. 	<ul style="list-style-type: none"> □ Develop recruitment strategy; □ Increase profile of Insurance Regulator's office within MOF to attract donor funding for new staff; □ Secondment of staff from other departments in MOF; □ Secondment of staff from neighboring countries; and □ Delegate the prudential role (i.e. collection and analysis of data to Bank of Lao PDR) while the Insurance Regulator is directly responsible for market conduct aspects¹¹
No IT hardware or system and support in Insurance Regulator	<ul style="list-style-type: none"> □ Unable to store information on a secure basis; and □ Not able to complete any actions required to be done by the Insurance Regulator. 	<ul style="list-style-type: none"> □ Set up a budget for the minimal IT requirements and seek funding from MOF or other stakeholders (i.e. the Insurance Association when formed); and □ Seek sponsored equipment.
No market information on insurance	<ul style="list-style-type: none"> □ Not able to meet ASEAN membership requirements; □ Not meeting the WTO requirements of a transparent market; □ No idea of the financial stability of insurance market. 	<ul style="list-style-type: none"> □ Secondment of staff from neighboring countries; □ Secondment of statistical experts from other departments in MOF; and □ Coordinate the completion of 3 years insurance financial and market statistics with technical assistance. <p>Note: these options cannot happen until IT hardware and systems are in place.</p>
No regulations to monitor the market	<ul style="list-style-type: none"> □ Not meeting WTO requirements; and □ Market is unregulated and it provides no consumer protection. 	<ul style="list-style-type: none"> □ Technical assistance from drafting experts; □ Secondment of staff from neighboring countries; and □ Committed Insurance Regulator's staff focused on this task alone.
Market perception that Insurance Regulator's office	<ul style="list-style-type: none"> □ Insurance market does not have confidence in Insurance 	<ul style="list-style-type: none"> □ Consider moving the Insurance Regulator's functions to a more neutral department;

¹⁰ These gaps can also be referenced to the summary of gaps to the ICPs in the March 2015 version of the inception report.

¹¹ This option is not practical in the short term as the capability of the BOL to do this has not been examined and the political aspects of this need to be fully developed.

Issue / challenge	Impact or gap from the issue / challenge ¹⁰	Options to remedy
has a conflict of interest	<ul style="list-style-type: none"> Regulator's ability carry out its role; □ Internal competition in MOF departments for budget and priority of resources; and □ Funding from donors may be limited. 	<ul style="list-style-type: none"> □ Consider delegating the prudential aspects of Insurance Regulator to BOL; and □ Develop processes and systems that demonstrate to the market there is no conflict of interest i.e. "the building of Chinese walls".

Table 3: Challenges and Issues in the medium to longer term

Issue / challenge*	Impact or gap from the issue / challenge ¹²	Options to remedy
The establishment and ongoing operation of Insurance Regulator's office with limited staff numbers and being located within a department in MOF that has another function.	<ul style="list-style-type: none"> □ Maintaining an independent Insurance Regulator's office is challenging within the existing department in MOF; □ Setting up with a staff of at least 12 and building up to 20 staff over a 3 year period; and □ Carrying out the supervisory and development role of the Insurance Regulator. 	<ul style="list-style-type: none"> □ MOF and or donors get committed to a funding plan for additional staff; □ The Insurance Regulator office relocated to independent location; and □ Commitment from donors to fund establishment processes in the Insurance Regulator's office.
The Regulatory environment and ongoing monitoring of the market.	<ul style="list-style-type: none"> □ No regulations limit the ability of Insurance Regulator to monitor the market; □ No IT system to collect and analyze insurance data; and □ No ability to know how much income from insurance remains in the Lao economy (i.e. no data on reinsurance used by insurance companies that is placed outside Lao PDR) 	<ul style="list-style-type: none"> □ Commitment from donors to fund technical assistance for development of regulations; □ Donor funding for the implementation of an appropriate Insurance Regulators' system; and □ Development of staff capacity to carry out onsite and offsite supervision of insurers.
The ongoing development of capacity in Insurance Regulator and the insurance market.	<ul style="list-style-type: none"> □ The limited technical capability limits development opportunities; and □ Limited use of technology and people with IT skills restricts how well the Insurance Regulator can monitor the market. 	<ul style="list-style-type: none"> □ Get donor commitment to continuous technical assistance programs; □ Hire people with good IT skills; and □ Set up secure IT system for the Insurance Regulator to use only.

¹² These gaps can also be referenced to the summary of gaps to the ICPs in the March 2015 version of the inception report.

91. These gaps and issues are identified at a more strategic level and the details for the capacity building required will be developed with technical assistance in 2016 and 2017.

Action plans

Year 2016

92. The primary driver of activity during this period is the development of the 2016 plan for Insurance Regulator's office. Some of the activity in this plan can be completed without additional funding but the greater part of the plan needs funding from donors. The first option will be to approach the current "Second Trade Development Facility Project" to seek additional funding for immediate project activity.
93. The table below summarizes the essential activities in the short term that are proposed to assist with the development of the Insurance Regulator and other aspects of the insurance sector in Lao PDR.

Table 4: Short term proposed development activities 2016.

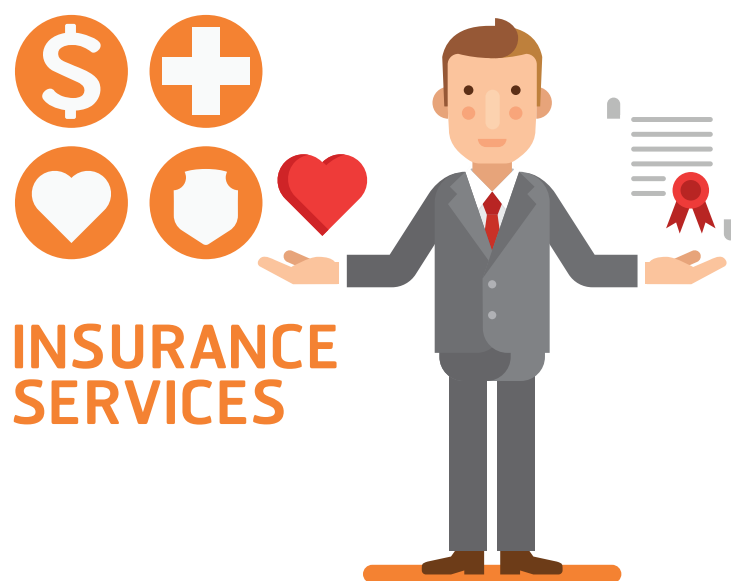
Challenge / issue	Proposed action
Increase staffing in the Insurance Regulator's office.	<ul style="list-style-type: none"> □ Increase the profile of Insurance Regulator's office in MOF to gain the potential for donor funding to cover the costs of additional staff (internal MOF to action); □ Develop a recruitment plan (MOF internal action); □ Secondment of staff from other departments within MOF (internal MOF to action); □ Approach insurance association for funding assistance for new staff. (MOF action); □ Secondment of staff from neighboring country (seek funding from MOIC project); and □ Develop strategy to remove perceived conflict of interest the Insurance Regulator currently has (MOF action).
Collection and analysis of 3 years market data	<ul style="list-style-type: none"> □ Acquire IT hardware and system for the Insurance Regulator's office (seek MOIC project funding); □ Get staff with IT skills to work in the Insurance Regulator's office; □ Develop a strategy on the best option on how to get information from insurance companies and publish this information (internal, MOF); and □ Options could include secondment of MOF staff from other departments or secondment from neighboring country (MOIC project funding).
Development and enactment of eight regulations	<ul style="list-style-type: none"> □ The Insurance Regulator will enact the regulations drafted by the Consultant, after getting feedback from insurers (MOF internal action); and □ Obtain technical assistance from external experts to finalize regulations (seek MOIC funding).

Other recommended actions in 2016

94. It is recommended that the World Bank review the 3 year capacity building plan to determine their potential involvement in the development of the regulatory environment for insurance in Lao PDR.¹³;
95. For the Insurance Regulator, the initial development of an IT system and database and the development and enactment of the 8 regulations are the highest priority actions.

Conclusion

96. Overall, there is much to consider when setting up a regulatory body such as the Insurance Regulator. The key, however, is to start as simply as possible and to share knowledge and experience with other insurance regulators across ASEAN since there will be common ground, even though the regulators in other ASEAN countries are in different stages of development.
97. It is also likely that the Insurance Regulator will need to consider making transitional arrangements, since it is unlikely that new regulatory approaches can be put in place quickly and in full from the outset.
98. It is also important that the Insurance Regulator gains the support of insurers in Lao PDR as well as the stakeholders who will benefit from higher standards in the market. Efforts will need to be made from the outset to win support from all involved. This will be made easier if the Insurance Regulator can facilitate regular training which is attended by all insurers.



¹³ The activities that the consultant considers appropriate for world bank support are highlighted in yellow in the 3 year development plan which is contained in Appendix 4

Appendix 1: Activity of Consultant

99. The Consultant used a combination of desk research of publically available information, stakeholder interviews, observation of market practices in Lao PDR and working alongside the Insurance Regulator's staff.
100. Initial findings from the first field mission in November 2014 were either commented on or analyzed in the inception report. Three more field trips were used by the Consultant to validate initial findings, obtain more information from stakeholders that is not publically available, and communicate with the Insurance Regulator and stakeholders on issues that need to be addressed. The Consultant worked alongside the Insurance Regulator's staff to help to improve their understanding of insurance and the requirements of a regulatory framework. The additional information, validation of information and feedback from stakeholders is included in subsequent reports.

Work Program

101. The following activity was undertaken by the Consultant with regards to the assistance and advice provided.

Stakeholder Workshop

Presentation

102. A workshop was held on 28 May 2015, with 44 people attending the workshop. Presentations made by the consultant on observations of the Lao PDR insurance market and what is needed to establish an effective insurance market.

Feedback from stakeholders

103. Stakeholders main concerns were
 - The amendments required to the insurance law to make it more practical;
 - The capacity of the Insurance Regulator to carry out its functions effectively;
 - The establishment of the insurance association; and
 - The challenges for insurance companies in Lao PDR.

Industry Consultation

104. Constructive meetings were held with the senior staff of six insurance companies in Lao PDR. The purpose of the meetings was to assess the capability of the insurance companies to meet the requirements of the proposed regulations, particularly the reporting standards.
105. All of the companies agreed that they would be capable of providing all of the financial information and data required by the Insurance Regulator within 15 days after quarter end with the aim of reducing this period to 10 days after quarter end after the first 12 months.
106. All six insurance companies had systems that already recorded and reported the information the Insurance Regulator needs to both monitor the performance of the insurance companies and develop consolidated statistics for the insurance market in Lao PDR.

107. All companies were very supportive of the establishment of the insurance association. Sub-committees of the proposed association having been set up on the expectation that the association will receive approval from the Ministry of Interior in the next few months. The insurance companies are keen for the association to support the development of the Insurance Regulator's staff by giving training courses to the Insurance Regulator's staff that will increase the technical knowledge on insurance for those staff.
108. Some insurance companies reported that they were uncomfortable with the current location of the Insurance Regulator, namely being situated in the office that also monitors investments by the government. As a result the insurers were not convinced that the information given to the Insurance Regulator from the insurance companies will be treated confidentially.

Meetings with Government Officials

109. Meetings were held with the Director General in the Ministry of Finance responsible for insurance. The Consultant highlighted the important areas the Insurance Regulator needed to focus on in the next 12 months.
110. From the discussion that ensued the Consultant and the Director General agreed on an approach for immediate capacity building activities and other developments that are needed to formalize the structure of the Insurance Regulator. These recommendations are detailed in table 3.

Capacity building

111. The Consultant was able to work with two staff from the Insurance Regulator who have responsibility for getting the Insurance Regulator's office established with development of regulations and the collection of financial information from the insurance companies.
112. The time spent with the staff enabled the Consultant to identify gaps in the capability and the understanding they have of technical aspects of insurance. These gaps can be closed provided:
- Donor funding is available; and
 - The Lao PDR Government demonstrates and identifies the Insurance Regulator as a key priority area for access to such funding.

Logistic support

113. The staff in the Insurance Regulator's office do not have a work desktop computer, there is no office internet system to connect to, the software used currently by staff is not a genuine product, and there is no server available to support the computers. This will restrict the ability of the Insurance Regulator's office and their staff to carry out important regulatory functions.

Consultation with World Bank Officials

114. As part of this project, the Consultant met with World Bank representatives on three occasions to discuss findings from the mission and discuss the proposed options to develop the insurance sector over the next three years.
115. In those meetings, the Consultant agreed to identify development projects in the three year capacity building plan that the World Bank could consider funding.

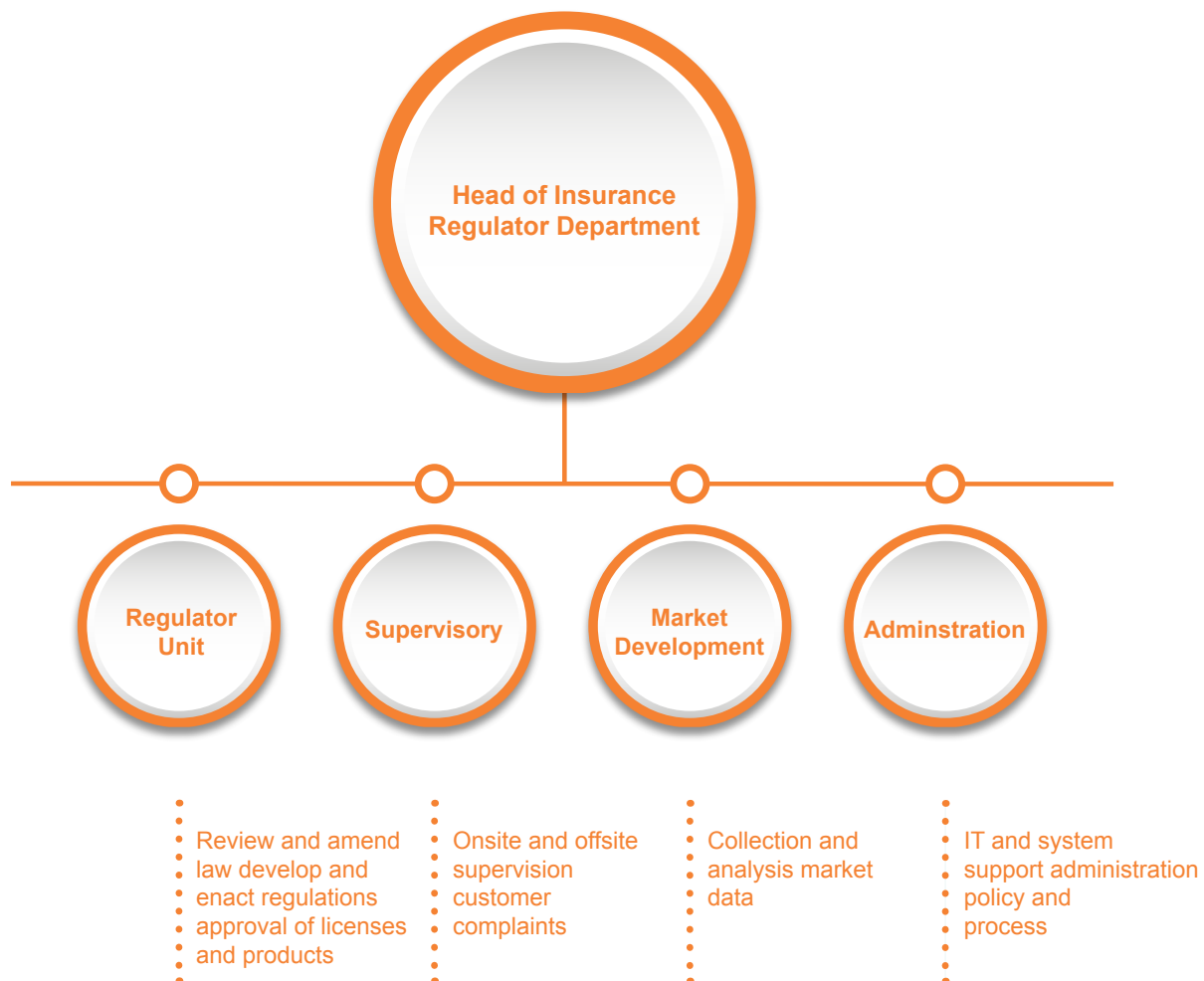
Appendix 2: Organization and responsibilities of staff in Regulator's office

Proposed staffing requirements

116. The consultant proposes that staff have specialized roles in the proposed structure of the Insurance Regulator during the first 12 months. The Director General and the managers of each of the units will be required to take a "hands on role" and actively work on daily tasks to ensure that the tasks required to achieve the objectives are completed. The new structure set up by MOF in October is a start to make sure that the staff focus only on insurance.
117. When the set up activities have been developed it is recommended that MOF consider the following organizational structure for the Insurance Regulator's office.

Roles and Functions

118. The roles and functions in the structure above are as follows:



a leadership role with the other three staff who are focused on insurance matters This position does not need to be changed.

Reporting Units

120. The four new units recommended, i.e. Regulatory, Supervisory, Market Development and Administration in the longer term will have a leader or manager and staff.
121. In the initial stages of establishment it is recommended that the three staff in the department who are focused on insurance now each take responsibility for one of the three units and endeavor to recruit staff to assist with what is required to be done in each unit. Each of the existing staff need to review their skills and experience and work with the Deputy Director General to decide which unit they are best suited to.

Table 5: Proposed staffing for each unit

Unit	Responsibilities	Staffing	Preferable skills and experience
Regulatory Unit	<ul style="list-style-type: none"> □ Developing and enacting regulations; □ Reviewing and updating the Insurance Law; □ Approving insurance products; and □ Approving new licenses. 	Three staff: <ul style="list-style-type: none"> □ Manager; and □ Two policy analysts. 	Legal degree, drafting experience, knowledge of insurance law and insurance operations, attention to detail, good English written and spoken, effective communicator.
Supervisory Unit	<ul style="list-style-type: none"> □ Offsite and onsite supervision; □ Reviewing and ruling on customer complaints; and □ Reviewing the level of risk for each insurance company based on the analysis completed by the market development unit. 	Three staff: <ul style="list-style-type: none"> □ Manager; and □ Two examiners. 	Auditing, knowledge of insurance operations, attention to detail, financial analysis, good communication, strong English and an appreciation of risk management.
Market development Unit	<ul style="list-style-type: none"> □ Collection and analysis of information from insurance companies; □ Develop and produce annual report on the insurance sector; and □ Develop consumer education programs 	Three staff: <ul style="list-style-type: none"> □ Manager; and □ Two analysts 	Knowledge of insurance operations, attention to detail, financial analysis, good communication, statistics, reporting skills, good IT skills.

*Administration Unit	<ul style="list-style-type: none"> □ IT and system support ; □ All administration required by managers; and □ Administration of customer complaints, education program and onsite supervision. 	<p>Two staff:</p> <ul style="list-style-type: none"> □ Manager; and □ Administrator. 	<p>Strong understanding and experience with IT systems particularly excel, ability to coach other staff, good English, attention to detail, good communication and good business processes</p>
<p>* it is strongly recommended that the first person employed in this unit has IT skills to help to set up the data base and work with the market development unit to collect, analyze and report on the 2 years information for 2013 and 2014.</p>			

Main tasks and responsibilities

122. The main tasks and responsibilities under the proposed structure are as follows: -

- (i) Head of Insurance department (Deputy Director General):
 - a) Communicate with the insurance companies on the development of insurance regulations and the requirements for data collection;
 - b) Guide and manage the outcomes of the tasks for the other three managers;
 - c) Complete job descriptions and the recruitment process to hire additional staff;
 - d) Arrange regular training for staff members; and
 - e) Manage the development of processes and policies for Insurance Regulator.
- (ii) Manager Regulatory unit:
 - a) Lead the development of regulations for insurance in Lao PDR;
 - b) Coordinate the development of the regulations with Ministerial advisors and other relevant stakeholders. (This task may require the engagement of external experts to assist with the completion of the regulations);
 - c) Review license applications and recommend approval;
 - d) Review and approve new products; and
 - e) Review and amend the Insurance Law as required.
- (iii) Manager Supervisory unit
 - a) Lead the development of onsite and offsite supervision functions including the development of process manuals and training of examination staff;
 - b) Establish customer complaints processes and review and rule on customer complaints; and
 - c) Complete regular risk assessments of insurance companies.
- (iv) Manager Market development Unit
 - a) Set up a data base to capture the information provided by insurance companies;
 - b) Record, consolidate and report on information from insurance companies in the data base;
 - c) Complete ratio analysis on prescribed key performance indicators; and

- d) Develop and implement consumer education programs.
- (v) **Manager Administration Unit**
 - a) Coordinate all the administrative functions of the Insurance Regulator's office;
 - b) Manage all IT requirements for staff and administer the data base;
 - c) Coordinate the consolidated reporting;
 - d) Coordinate onsite visits and the management of all stakeholder meetings; and
 - e) Manage the development of process manuals for the Insurance Regulator's office.



Appendix 3: Skill Requirements in Insurance Regulator's Office

Table 6: Skill requirements in the Insurance Regulator's Office

Generic skills to work in Insurance Regulator office	Technical skills for Regulatory role	Expertise / Knowledge
<ul style="list-style-type: none"> <input type="checkbox"/> Administration processes and support services i.e. filing, written and verbal communication, report writing etc. 	<ul style="list-style-type: none"> <input type="checkbox"/> Legal; interpretation of contracts, products, consumer protection and regulations. 	<ul style="list-style-type: none"> <input type="checkbox"/> Lao PDR Insurance and regulations.
<ul style="list-style-type: none"> <input type="checkbox"/> English written and spoken (basic level). 	<ul style="list-style-type: none"> <input type="checkbox"/> English written and spoken (advanced level). 	<ul style="list-style-type: none"> <input type="checkbox"/> IAIS Insurance core principles.
<ul style="list-style-type: none"> <input type="checkbox"/> Basic IT programs (i.e. word, excel, access, use of email and internet.) and the use of a PC. 	<ul style="list-style-type: none"> <input type="checkbox"/> Intermediate to advanced IT skills i.e. excel and data base. 	<ul style="list-style-type: none"> <input type="checkbox"/> ASEAN insurance markets.
<ul style="list-style-type: none"> <input type="checkbox"/> Data entry. 	<ul style="list-style-type: none"> <input type="checkbox"/> Analysis of data, financial ratios and development of reports. 	<ul style="list-style-type: none"> <input type="checkbox"/> Lao PDR financial laws and regulations.
<ul style="list-style-type: none"> <input type="checkbox"/> Management of meetings. 	<ul style="list-style-type: none"> <input type="checkbox"/> Research. 	<ul style="list-style-type: none"> <input type="checkbox"/> Lao PDR commercial and civil laws.
<ul style="list-style-type: none"> <input type="checkbox"/> Use of technology. 	<ul style="list-style-type: none"> <input type="checkbox"/> Financial analysis. 	<ul style="list-style-type: none"> <input type="checkbox"/> Risk management principles and practices.
	<ul style="list-style-type: none"> <input type="checkbox"/> Risk: assessment, monitoring and mitigating. 	<ul style="list-style-type: none"> <input type="checkbox"/> Corporate Governance principles and practices.
	<ul style="list-style-type: none"> <input type="checkbox"/> Market surveillance. 	<ul style="list-style-type: none"> <input type="checkbox"/> Insurance products.
	<ul style="list-style-type: none"> <input type="checkbox"/> Offsite and onsite supervision. 	<ul style="list-style-type: none"> <input type="checkbox"/> How an insurance company operates.
	<ul style="list-style-type: none"> <input type="checkbox"/> Writing reports. 	
	<ul style="list-style-type: none"> <input type="checkbox"/> Judgment. 	
	<ul style="list-style-type: none"> <input type="checkbox"/> Critical thinking. 	

Appendix 4: Proposed Priority Action Plan 2016

Table 7: Lao PDR Insurance Regulator's office: Proposed plan to complete priority actions in 2016

Priority Activity	Actions required to complete Activity	Resources / Skills required to complete activity	Gaps in Regulator's resources and or skills	Recommended options to complete activity *
Publish insurance statistics for 3 years (2013/ 14/ 15)	<ul style="list-style-type: none"> <input type="checkbox"/> Write to insurance companies requesting they complete the data template for 3 financial years and send their financial reports to the Insurance Regulator. <input type="checkbox"/> Collect data templates, review and validate information in the templates with the company's financial reports. <input type="checkbox"/> Consolidate all information and data to create a sector report. <input type="checkbox"/> Publish report on the state of the insurance sector. 	<ul style="list-style-type: none"> <input type="checkbox"/> Insurance companies have financial information and data available to meet template requirements. <input type="checkbox"/> Staff in the Insurance Regulator's office have a good knowledge of the categories of financial information to validate the completed templates and compare these to submitted reports from the companies. <input type="checkbox"/> An Excel software program is available on a secure computer. <input type="checkbox"/> Staff can consolidate the data and develop a report for the insurance sector. 	<ul style="list-style-type: none"> <input type="checkbox"/> No desk top computers for the staff at the Insurance Regulator's office to use. <input type="checkbox"/> Staff have limited knowledge on the implications of the financial data from an insurance company. <input type="checkbox"/> Limited Excel skills and the Insurance Regulator's office does not have an authentic version of Excel. <input type="checkbox"/> The staff have not prepared a report on market statistics. 	<ul style="list-style-type: none"> <input type="checkbox"/> Use staff from a neighboring regulator to work with staff to complete data templates and reports. <input type="checkbox"/> Use staff who have Excel skills from another department within MOF to complete data templates and develop report. <input type="checkbox"/> Purchase authentic Microsoft software. <input type="checkbox"/> Purchase up to 4 desk top computers and a server to start a secure network in the Insurance Regulator's office.
Establish insurance association of Lao PDR	<ul style="list-style-type: none"> <input type="checkbox"/> Maintain contact with Insurance association representatives and assist 	<ul style="list-style-type: none"> <input type="checkbox"/> Staff time to be available to assist the association as required. 	<ul style="list-style-type: none"> <input type="checkbox"/> No identifiable gaps. 	<ul style="list-style-type: none"> <input type="checkbox"/> No requirements.

Priority Activity	Actions required to complete Activity	Resources / Skills required to complete activity	Gaps in Regulator's resources and or skills	Recommended options to complete activity *
	<ul style="list-style-type: none"> □ with registration process as required. □ Confirm constitution. □ Develop a plan with the association on the development needs of the insurance sector. 	<ul style="list-style-type: none"> □ Knowledge of the right people who can assist with the registration process. 		
Implement at least eight regulations	<ul style="list-style-type: none"> □ Translate the Consultant's draft regulations into Laos. □ Draft regulations based on Consultant's draft and any local interpretations required in the draft. □ Circulate draft regulation to insurers for feedback. □ Hold a workshop with insurers to finalize draft. □ Submit this version to the Minister of Finance for approval and enactment. 	<ul style="list-style-type: none"> □ Knowledge on the technical aspects of insurance and insurance law and regulations. □ An understanding of English to comprehend the meaning of the initial draft. □ Ability to convert company feedback into the regulation. □ Ability to draft regulations that can be enforced. 	<ul style="list-style-type: none"> □ Very little technical knowledge of insurance or regulations. □ Limited capability in English. □ No experience in drafting. □ No experience in developing new versions of regulations and incorporating feedback from insurers... 	<ul style="list-style-type: none"> □ Seek technical assistance to draft regulations and train staff (tender for local law firms). □ Use staff from a neighboring regulator to develop regulations and train staff. □ English courses on insurance terminology for staff.
Increase profile of Regulators role in MOF		<ul style="list-style-type: none"> □ A good knowledge of the Regulators role and responsibilities. □ Good communication. □ WTO compliance requirements. 	<ul style="list-style-type: none"> □ Limited ability to articulate the role of the Insurance Regulator. □ Potential conflict of interest within the MOF department which also 	<ul style="list-style-type: none"> □ Technical assistance and or training on the role of the Insurance Regulator. □ Technical assistance to develop and assist with implementation of an action plan to facilitate the

Priority Activity	Actions required to complete Activity	Resources / Skills required to complete activity	Gaps in Regulator's resources and or skills	Recommended options to complete activity *
<p>Increase staff in the Regulator's office</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Review Consultants recommended organization structure. <input type="checkbox"/> Develop a report for MOF Director General's on staffing requirements. <input type="checkbox"/> Develop job descriptions and commence recruitment process. 	<ul style="list-style-type: none"> <input type="checkbox"/> An understanding of MOF recruiting system. <input type="checkbox"/> A good knowledge of what the jobs require. <input type="checkbox"/> Good interviewing skills. 	<p>monitors performance of SOEs.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Limited potential for staff who have worked for an insurance company to join the Insurance Regulator's office. <input type="checkbox"/> Limited flexibility to recruit staff with specific skills under the government recruitment policy. <input type="checkbox"/> Limited physical office space available and IT equipment 	<p>development of a strategy to improve the profile of the Insurance Regulator.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Develop a budget for the minimal number of additional staff required for 2016. <input type="checkbox"/> Recruit additional staff based on obtaining additional funding.

Appendix 5: Cost estimates and funding options to consider for each recommendation

Table 8: Cost estimates and funding options to consider for each recommendation

Option	Actions and method to complete the option	Positive effect of completing action	Negative effect of completing action	Estimated cost
Use staff from a neighboring regulator to work with staff to complete data templates and reports.	<ul style="list-style-type: none"> <input type="checkbox"/> Negotiate with Thailand initially, or alternatively Malaysia or Vietnam requesting two staff for a month to complete the data templates and train staff. <input type="checkbox"/> Staff to be analysts and speak English. <input type="checkbox"/> Purchase computers and server. 	<ul style="list-style-type: none"> <input type="checkbox"/> Produces a report on the insurance sector in a timely manner. <input type="checkbox"/> Knowledge is passed on to local staff. 	<ul style="list-style-type: none"> <input type="checkbox"/> Seconded staff may not be good teachers. <input type="checkbox"/> Availability of resources. <input type="checkbox"/> Limited ability to follow up if work not completed in the month. 	<ul style="list-style-type: none"> <input type="checkbox"/> Costs 2 airfares and 30 days per diem estimated at \$800 US for 2 air fares and per diem @100 a day \$6000 for 2 people. <input type="checkbox"/> Computers, software and server (\$500 a computer, software \$1000 and server \$2000) total \$4000 <input type="checkbox"/> Total estimate including contingency estimated at \$12000US
Use staff who have Excel skills from another department within MOF to complete data templates and develop report.	<ul style="list-style-type: none"> <input type="checkbox"/> Identify two staff who can commit to the task for one month without a break. <input type="checkbox"/> Locate these staff in the Insurance Regulator's office, rely on the staff in the Insurance Regulator's office to provide advice to staff on the data categories. <input type="checkbox"/> Purchase computers and server. 	<ul style="list-style-type: none"> <input type="checkbox"/> Specialist Excel staff will set up the templates accurately. <input type="checkbox"/> There is a good chance the work will be completed in a month. <input type="checkbox"/> Staff are available after the task is completed to assist Insurance Regulator's staff in the future. 	<ul style="list-style-type: none"> <input type="checkbox"/> No technical insurance knowledge; limits their ability to complete the templates accurately. <input type="checkbox"/> Limited ability to train Insurance Regulator's staff. <input type="checkbox"/> IT support not set up. 	<ul style="list-style-type: none"> <input type="checkbox"/> Computers, software and server (\$500 a computer, software \$1000 and server \$2000) <input type="checkbox"/> Total \$4000

Option	Actions and method to complete the option	Positive effect of completing action	Negative effect of completing action	Estimated cost
<p>Seek technical assistance to draft regulations and train staff.</p>				
<p>Option one: Tender for local law firms*: *This is the Consultant's preferred Option.</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Develop TOR for technical assistance with the requirement for drafting expertise to assist with drafting up to four regulations. <input type="checkbox"/> Staff to be analysts and speak English. <input type="checkbox"/> 2 people for three months. <input type="checkbox"/> Preference to use local firms as drafting is completed in Laos as well as English and regular training say weekly for 6 weeks in technical aspects of insurance in English. 	<ul style="list-style-type: none"> <input type="checkbox"/> Regulations drafted in an enforceable format. <input type="checkbox"/> Experts focused on a task with a clear timeline. <input type="checkbox"/> Experts can facilitate feedback workshops with insurance companies. 	<ul style="list-style-type: none"> <input type="checkbox"/> Local firms have a limited knowledge of technical aspects of insurance and command of English is not strong. 	<ul style="list-style-type: none"> <input type="checkbox"/> Estimate of 3 months effort for drafting @ \$500 a day \$33,000US. <input type="checkbox"/> English training once a week for 6 weeks plus preparation time. <input type="checkbox"/> Course 2 hours estimated cost for time \$150 *6 \$900 US plus preparation 3days @\$600 \$1,800. <input type="checkbox"/> Total including contingency \$4000 or English language. <input type="checkbox"/> Total \$37000US.
<p>Use experts from neighboring countries.</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Negotiate with Thailand initially, alternatively Malaysia or Vietnam requesting 2 staff for 3 month to draft regulations and train staff in English. 	<ul style="list-style-type: none"> <input type="checkbox"/> Cheaper option. <input type="checkbox"/> Specialist used to drafting regulations for insurance. <input type="checkbox"/> Specialist have a good knowledge of the technical aspects of insurance. 	<ul style="list-style-type: none"> <input type="checkbox"/> Cannot draft regulations in Laos language. <input type="checkbox"/> Limited knowledge of the local legal environment. 	<ul style="list-style-type: none"> <input type="checkbox"/> Airfares 4 *400 \$1,600. <input type="checkbox"/> Per Diems 6 *3000 \$18,000. <input type="checkbox"/> Total including contingency \$21,000.

Option	Actions and method to complete the option	Positive effect of completing action	Negative effect of completing action	Estimated cost
Technical assistance and or training on the role of the Insurance Regulator.	<ul style="list-style-type: none"> <input type="checkbox"/> Use the National Consultant to train the staff at the Insurance Regulator's office, training material provided by the project's International Consultant. 	<ul style="list-style-type: none"> <input type="checkbox"/> It focuses staff on the important aspects of their role. <input type="checkbox"/> National Consultant has a broad understanding of the Insurance Regulator's role. 	<ul style="list-style-type: none"> <input type="checkbox"/> Translation from English to Laos may lose some important aspects of role. 	<ul style="list-style-type: none"> <input type="checkbox"/> Additional work completed by the National Consultant within existing project budget.
Technical assistance to develop and assist with implementation of an action plan to facilitate the development of a strategy to improve the profile to obtain funding assistance from within MOF.	<ul style="list-style-type: none"> <input type="checkbox"/> Use the National Consultant to work with the staff at the Insurance Regulator's office to develop a strategy. 	<ul style="list-style-type: none"> <input type="checkbox"/> Focuses staff on the important aspects of their role. <input type="checkbox"/> National Consultant understands the context of the Ministry. 	<ul style="list-style-type: none"> <input type="checkbox"/> Getting a timely agreement on ideas. 	<ul style="list-style-type: none"> <input type="checkbox"/> Additional work completed by the national Consultant within existing project budget.
Develop a budget for a minimal number of additional staff for the next month based on priority positions only.	<ul style="list-style-type: none"> <input type="checkbox"/> Use MOF staff to develop a budget for the additional staff. 			<ul style="list-style-type: none"> <input type="checkbox"/> No cost if MOF staff develop and complete the budget.

The Consultant recommends that MOF discuss these options with MOIC (FTDP) in an effort to obtain immediate funding to complete these activities

Appendix 6: Recommended capacity building and development plan 2016 - 2019

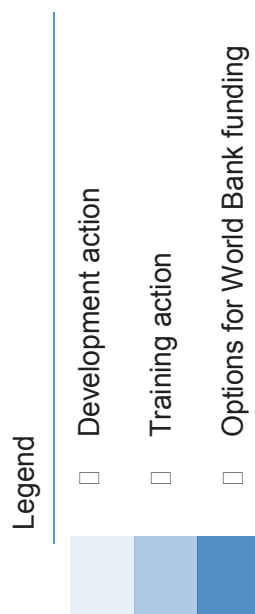


Table 9: Recommended capacity building and development plan 2016 - 2019

Activity	Rationale for activity	Skills/ knowledge/ expertise or development action covered by activity	Options to completed the training and or development need	Funding options	Timing of training and or development actions
Establish Insurance Regulator office with recommended compliment of staff.	Meet ICP 1 Sufficient resources to carry out role of Insurance Regulator.	Support for management for recruitment requirements.	<ul style="list-style-type: none"> <input type="checkbox"/> Use internal HR resources in MOF with assistance from Consultant to draft job descriptions. <input type="checkbox"/> MOF HR and the Insurance Regulator's team to develop the requirements for a new team. 	Ministerial budget for additional staff	2016 / 2017 Over a 12 month period
Develop and implement regulations.	Meet ICP 1, set up environment for insurance.	<ul style="list-style-type: none"> <input type="checkbox"/> Workshops with stakeholders on 	<ul style="list-style-type: none"> <input type="checkbox"/> Use of international Consultant to 	<ul style="list-style-type: none"> <input type="checkbox"/> Donor funding World Bank for international 	Commence 2016 for an ongoing program for 3 years

Activity	Rationale for activity	Skills/ knowledge/ expertise or development action covered by activity	Options to completed the training and or development need	Funding options	Timing of training and or development actions
		<ul style="list-style-type: none"> proposed regulations <input type="checkbox"/> Develop priority list of regulations to be developed. <input type="checkbox"/> Develop skills in drafting regulations. 	<ul style="list-style-type: none"> drafting and implementation <input type="checkbox"/> Use of local legal firm to assist with drafting <input type="checkbox"/> Use internal MOF or other Ministerial expertise in drafting 	<ul style="list-style-type: none"> Consultant and local legal firm services. <input type="checkbox"/> Additional levy on insurance companies. 	<ul style="list-style-type: none"> <input type="checkbox"/> Initial regulations to be developed: licensing, solvency, reporting, product approval, agents, brokers, actuaries, accounting, investment and corporate governance.
Understand the role of Insurance Regulator.	Meet ICP1, 12,13	<ul style="list-style-type: none"> <input type="checkbox"/> ICPs. <input type="checkbox"/> Processes and operations of a regulators office. 	<ul style="list-style-type: none"> <input type="checkbox"/> Use of international Consultant for training <input type="checkbox"/> Study tour in ASEAN region <input type="checkbox"/> On line study through IAIS resources 	<ul style="list-style-type: none"> <input type="checkbox"/> Donor funding World Bank <input type="checkbox"/> Donor funding and ASEAN regulators on study tour <input type="checkbox"/> IAIS <input type="checkbox"/> MOF budget 	2016
<ul style="list-style-type: none"> <input type="checkbox"/> Set up data base for insurance company information. <input type="checkbox"/> Input data from insurance companies. 	<ul style="list-style-type: none"> <input type="checkbox"/> Meet ICP 11. <input type="checkbox"/> Status of Lao PDR insurance market. <input type="checkbox"/> IT system to support Insurance Regulator role. 	<ul style="list-style-type: none"> <input type="checkbox"/> Financial analysis. <input type="checkbox"/> Database management. <input type="checkbox"/> Understanding of insurance data and terminology. 	<ul style="list-style-type: none"> <input type="checkbox"/> One on one staff training. <input type="checkbox"/> Technical assistance fulltime, expert from another ASEAN regulator's office. 	<ul style="list-style-type: none"> <input type="checkbox"/> Donor funding World Bank. <input type="checkbox"/> MOF budget. 	2016 through to 2017 Full technical assistance for a period of 18 months (intermittently to cover reporting periods usually quarterly).

	Activity	Rationale for activity	Skills/ knowledge/ expertise or development action covered by activity	Options to completed the training and or development need	Funding options	Timing of training and or development actions
	<ul style="list-style-type: none"> <input type="checkbox"/> Analysis of financial information. <input type="checkbox"/> Report status of financial information. <input type="checkbox"/> Train insurance companies on the right data to enter (clarification of definitions). 			<ul style="list-style-type: none"> <input type="checkbox"/> International Consultant on an intermittent basis 		
	Establish the infrastructure for Insurance Regulator's office.	Tools to support the Insurance Regulator's activities.	<ul style="list-style-type: none"> <input type="checkbox"/> IT equipment and software (i.e. Word Excel etc.), computers for all staff. <input type="checkbox"/> IT system for supervisor. 	<ul style="list-style-type: none"> <input type="checkbox"/> Purchase computers on a planned basis as new staff are engaged. <input type="checkbox"/> Develop a feasibility report for IT system for supervisor. <input type="checkbox"/> Decide on purchase of off the shelf software or design and build 	<ul style="list-style-type: none"> <input type="checkbox"/> Donor funding World Bank. <input type="checkbox"/> MOF budget. <input type="checkbox"/> Levy from insurance companies. 	2016 through to 2017 An iterative process to develop the best option for the supervisors system.

	Activity	Rationale for activity	Skills/ knowledge/ expertise or development action covered by activity	Options to completed the training and or development need	Funding options	Timing of training and or development actions
	Generic skills; Refer to list of skills in table 6.	Basic skills to support development of the Insurance Regulator's office.	All administration and management skills to run an effective office.	<input type="checkbox"/> Training needs assessment of staff annually. <input type="checkbox"/> Local training providers work with the Insurance Regulator's staff. <input type="checkbox"/> Staff seconded to other Ministries. <input type="checkbox"/> Onsite training.	<input type="checkbox"/> Donor funding World Bank. <input type="checkbox"/> MOF budge. <input type="checkbox"/> Levy from insurance companies.	Late 2016 through 2019 on a continuous basis depending on the needs of staff. *details of training will need to be regularly reviewed and updated into the training program.
	Technical skills ; Refer to list of skills in table 6	Technical skills to support the development and growth of the Insurance Regulator's office	All technical knowledge needed to be an effective officer	<input type="checkbox"/> Training needs assessment of staff annually <input type="checkbox"/> Specialist on line courses <input type="checkbox"/> Staff seconded to other ASEAN Regulators on a short term basis <input type="checkbox"/> Onsite training with ASEAN training institute	<input type="checkbox"/> Donor funding World Bank <input type="checkbox"/> MOF budget <input type="checkbox"/> Levy from insurance companies <input type="checkbox"/> IAIS assistance.	Late 2016 through 2019 on a continuous basis depending on the needs of staff *details of training will need to be regularly reviewed and updated into the training program
	Insurance products; How an insurance company operates.	ICP 11	Staff have knowledge of insurance	<input type="checkbox"/> Insurance companies make presentations to	<input type="checkbox"/> Insurance companies	2016 and continuously as new staff are employed and new

	Activity	Rationale for activity	Skills/ knowledge/ expertise or development action covered by activity	Options to completed the training and or development need	Funding options	Timing of training and or development actions
			operations and products.	<p>Insurance Regulator.</p> <p><input type="checkbox"/> Insurance Regulator's staff seconded short term to an insurance company.</p>		products are launched.
	Onsite and offsite supervision.	ICP 13 and 14	Staff have the knowledge and skills of what is required to complete supervision...	<p><input type="checkbox"/> Study tours to ASEAN for individual staff to work on joint supervision on sites</p> <p><input type="checkbox"/> Training through international courses</p> <p><input type="checkbox"/> IAIS self-learning courses</p> <p><input type="checkbox"/> International advisor technical assistance working with Insurance Regulator on intermittent basis for monitoring.</p>	<p><input type="checkbox"/> MOF budget</p> <p><input type="checkbox"/> World Bank funded</p> <p><input type="checkbox"/> Levy from insurance companies</p> <p><input type="checkbox"/> IAIS assistance</p>	2017 onwards continuously.

Activity	Rationale for activity	Skills/ knowledge/ expertise or development action covered by activity	Options to completed the training and or development need	Funding options	Timing of training and or development actions
Risk Management and corporate governance	ICP 10	Senior management of The Insurance Regulator	<input type="checkbox"/> Study tour to a developed country. <input type="checkbox"/> Training through international courses. <input type="checkbox"/> IAIS self-learning courses. <input type="checkbox"/> International advisor technical assistance working with Insurance Regulator on intermittent basis.	<input type="checkbox"/> MOF budget <input type="checkbox"/> World Bank funded <input type="checkbox"/> Levy from insurance companies <input type="checkbox"/> IAIS assistance	2017 onwards

Appendix 7: Review of Insurance Law 2011

123. The Insurance Law 2011 and the Ministerial guide lines related to the law set out the requirements that need to be considered when the regulations are developed. The result of this review will either be to amend parts of the Law or to ensure the regulations follow the stipulations in the law.
124. Discussions between government officials and the insurance industry are necessary on the following clauses to better determine how they can be effectively implemented.
- **Clause 6:** Compulsory General Insurance, this will include third party liability for business, properties and assets which are determined by the Insurance Regulator. The challenge for the Insurance Regulator will be on how to enforce and ensure compliance to this compulsory insurance? A strategy will need to be developed on how other government ministries are involved in the enforcement of the compliance aspects of the compulsory insurance requirements set out in the instructions.
 - **Clause 11:** The calculation of the reserve fund for ongoing risks and outstanding claims stipulates a specific percentage (40%), this makes it difficult for insurance companies to manage their level of risks in accordance with their business. Best practice recommends each insurance company advises the Insurance Regulator of their reserves policy. The Insurance Regulator will be responsible for reviewing and approving their policy and will check the insurance companies' adherence to the policy when completing onsite reviews.
 - **Clause 12:** The prudential principles for insurance investments give percentages in the instructions which are considered are a good guide on how to limit the investment decisions an insurance company may make. It will be advisable in accordance with best practice for each insurance company to submit their investment strategy to the Insurance Regulator on an annual basis. The Insurance Regulator has the ability to check the company's compliance with their policy during their offsite reviews.
 - **Clause 17:** This clause still requires further policy development from the government on who is making the payment to the victim i.e. the non-insurance victims of road accidents.
 - **Clause 18:** The insurance fund for road victims to be set up is similar to clause 17. Further development of policy is required by the government before the fund is established.
 - **Clause 26 and 27:** Establishing a National Bureau of Insurance is a requirement under the ASEAN agreements. The consultant recommends that MOF set this up as a priority to implement in 2016.
125. From 2016 the Insurance Regulator will be guided by clauses in the Insurance Law that stipulate what regulations are to be developed by the Insurance Regulator. The following articles from the Insurance Law stipulate which regulations are to be established to support the Law.
- Article 10: Categories of Life Insurance
- Life insurance includes the following categories:
- Whole life insurance;

- Endowment insurance;
- Combined life insurance;
- Periodical payments insurance; and,
- Term life insurance.

Additional categories of life insurance can be determined on the basis of the approval of the Insurance Regulator, if necessary

126. To develop additional categories of products the Insurance Regulator will be required to approve these new products or categories before they go to market. The Consultant will develop guidelines for internal use by the Insurance Regulator on how to assess and whether to allow a new product for the market. Using these guidelines the Insurance Regulator will approve or decline new products or categories that insurance companies want to deliver to the market.

Article 12: Compulsory Insurance

Compulsory insurance applies to the following individuals, organizations and business units in all sectors conducting temporary or permanent business activities in Lao PDR, including Motor vehicles, hotels, guesthouses, entertainment places, restaurants, markets, construction sites, warehouses, chemical warehouses, fuel warehouses, explosive substance warehouses, factories, land, navigation and air transportation of goods and passengers, fire and places for producing and storing explosive substance.

127. Detailed regulations on compulsory insurance will be defined separately.

Article 82 (New). Applying for Licenses for Establishment and Operation of Insurance Brokers

An individual or organization wishing to establish and operate an insurance broker business shall follow the same rules for application as for the establishment of an insurance company as defined in Article 17 of this Law.

128. Details for the registered capital of the insurance broker are defined in a separate regulation.

Article 88 (amended). Compliance with the Financial Requirement

An insurer and insurance broker shall comply with the financial requirement, reserved funds and insurance reserves as defined in the laws and regulations of Lao PDR.

Article 89 (New). Reserve Funds

Insurers and insurance brokers must establish reserve fund as defined by the Law on Enterprise to ensure that there is an adequate fund to cover the risks in business operations and business expansion.

Article 90 (amended). Insurance Reserves

Insurance reserve means an amount of money which an insurer must set aside for the purpose of payment of its insurance liabilities. This is determined in advance and is calculated from the insurance contracts which it has entered into. Insurance reserves must be separately established for each type of insurance product and must be equivalent to that part of the liability retained by the insurer.

129. The Insurance Regulator shall issue specific regulations on the amount to be set aside and the method of establishing a reserve for each type of insurance product.

Article 96 (New). Financial income - Expenditure

Financial income and expenditure of the insurer and insurance brokers shall be dealt with in accordance with Accounting Law and standards of accounting principles of Lao PDR.

130. The Insurance Regulator shall provide guidelines for and shall inspect the implementation of the financial regime for insurers and insurance brokers

Appendix 8: Regulations (Guidelines)¹⁴:

131. In 2016 the Insurance Regulator proposes to implement the following regulations licensing, product approval, brokers, agents, solvency, reserves, investment and reporting.
132. The consultant drafted 15 regulations for the Insurance Regulator to; translate into Laos, review the regulation with insurers, get feedback from the insurers, incorporate appropriate feedback into the revised regulation then finalize the regulation for the approval of the Minister of Finance. Following the Minister's approval the regulation is enacted. These regulations are set out in draft only. The Insurance Regulator will be responsible for drafting the regulation into a format which is the standard required for Lao PDR. The draft regulations for solvency (life), solvency (non-life), reserving and reporting have been translated into Laos. The draft guideline developed by the Regulator on licensing was reviewed by the consultant. The outcome of this review was discussed with the Insurance Regulator in December 2015. A final version of the licensing guideline has been completed and is ready to review with the Minister.

Guideline 1: Regulations for Life Insurance Solvency Standards

1. Short title and commencement

- (1) These regulations may be called Solvency Standards for Life Insurance.
- (2) These regulations detail the requirements of Solvability clause 93 of the Insurance Law 2011.
- (3) They shall come into force on the date of their publication in the []

2. Definitions and Interpretations.-

In these regulations, unless the context otherwise requires, -

- (a) "Act" means the Law on Insurance 2011;

¹⁴ Lao PDR will implement Ministerial guidelines to regulate the insurance sector, the report refers to the guidelines as regulations which is the common term used in most countries.

- (b) “Authority” means the Insurance Regulator the relevant department in Ministry of Finance “MOF”
- (c) “Designated person” means a responsible person in the Insurance Regulator’s office who has been delegated authority to make decisions on financial statements submitted by life insurance companies.
- (d) “Capital and Capital sufficiency” means Capital minus Deductions from Capital. The definition of what can be used as part of capital and what is included in deductions from capital are detailed in the tables below.

Note: All components of the Capital sufficiency calculation (and Minimum Solvency Capital calculation.) This calculation is summarized as a calculation for the Life Fund, as the excess if any of the Total Solvency Requirement over the sum of the Policy Liability plus Other Liabilities at the balance date). . After calculation of Minimum Solvency Capital, the Life Fund must have a positive Solvency Margin.

The capital requirement for a statutory fund resulting from the Solvency Margin calculation must be held within the statutory fund. Capital in excess of the capital requirement for a statutory fund may be held outside the statutory fund

Capital is defined as the following items:

- (i) issued and fully or partly paid-up ordinary shares, that have full voting rights, have no preferential or predetermined rights to distributions of capital or income and are not redeemable. *(Partly paid-up shares qualify as Capital only to the extent the shares have been paid);*
- (ii) revenue and other reserves, including the following, but not including reserves that are held aside or otherwise committed on account of any assessed likelihood of loss:

“Capital redemption reserves”

Other reserves that are created or increased by appropriations of retained earnings net of tax and dividends payable;

Any share premium reserves arising from the issue of ordinary shares;

Each of the following types of reserves that are reflected in the statement of financial position:

Reserves arising from a revaluation of tangible fixed assets, including owner-occupied property;

Foreign currency translation reserves;

Reserves arising from the revaluation of investments;

Retained earnings; and

Non-controlling interests.

Deductions From Capital is defined as the sum of the value of the following items:

The intangible asset deductions comprise the following amounts to the extent that they form part of the assets of a licensed life insurer in Lao PDR as recognized and measured under the International Accounting Standards.

These include: goodwill measured in accordance with International Accounting Standards to the extent that this has not otherwise been deducted, capitalized computer software costs to the extent that they exceed the known resale value of the software (if the resale value is not known then it should be taken as nil) and other intangible assets as determined in accordance with International Accounting Standards.

Equity investments in, and subordinated loans to, related parties;

Any fair value gain that relates to a financial instrument for which:

fair value is determined in whole or in part using a valuation technique based on assumptions that are not supported by processes from observable current market transactions in the same instrument; or

fair value is not based on observable market data; or

fair value is based on prices in a market that is not active;

Any surplus, net of any associated deferred tax liabilities, in any defined benefit superannuation fund sponsored by the licensed insurer (or another group entity) as employer; and

Allowance for any dividend that has been declared or repayment of Capital made prior to finalization of the Solvency Margin calculations, but which has not been reflected in the financial statements.

(e) “*Appointed actuary*” means the actuary appointed by a licensed insurer in accordance with the Act.

(f) “*Fixed Capital*” means the amount referred to in the Act, and means the minimum amount of Actual Solvency Capital that the licensed insurer is required to hold at all times in order to meet the Solvency Margin requirements of this solvency standard. This requirement applies at the entity level and the capital may be held within or outside the statutory fund(s) of the life insurer provided at all times that, the statutory fund of the licensed insurer, sufficient Actual Solvency Capital to meet the requirements of the solvency standard is held within the statutory fund(s). If the Actual Solvency Capital falls below the Fixed Capital at any time then the licensed insurer must increase its Actual Solvency Capital to this amount. If the Actual Solvency Capital of the life insurer, is less than US \$2 million then the life insurer will be required to increase its Actual Solvency Capital to US\$2 million.

(g) “*The Minimum Solvency Capital*”, means what must be calculated for the Life Fund, is calculated as the excess (if any) of the *Total Solvency Requirement* over the sum of the Policy Liability plus Other Liabilities at the balance date

(h) “*Other Liabilities*” means liabilities that are not Policy Liabilities, valued according to the International Accounting Standards except where otherwise provided elsewhere in this solvency standard.

(i) “*Policy Liability*” means a liability that arises under a life policy and includes any asset or liability that arises under a management services element of an investment account contract. For the purposes of this solvency standard, notwithstanding any different presentation in the financial statements of the licensed insurer, Policy Liability must be calculated net of reinsurance and include any tax treatments required. In addition, any other assets or liabilities that in substance form part of the Policy Liability (including but not limited to deferred acquisition costs and deferred fee revenue) are to be included within the assessment of Policy Liability for the purposes of this solvency standard, whether or not these assets or liabilities are separately presented in the financial statements of the licensed insurer.

- (j) “*Residual*” means net assets within a Life Fund that are not committed to secure loans.
- (k) “*Solvency Margin*” means the excess of Actual Solvency Capital over Minimum Solvency Capital, expressed as a dollar amount.
- (l) “*Solvency Ratio*” means the ratio of Actual Solvency Capital divided by Minimum Solvency Capital, expressed as a ratio or a percentage.

Requirements of the licensed life insurer for managing its Solvency Margin

A licensed life insurer must, at all times, maintain a Solvency Margin as defined in the solvency standard. The Solvency Margin must always be a positive amount.

If a licensed life insurer has reasonable grounds to believe that a failure to maintain its Solvency Margin is likely to occur at any time within the next 3 years, the licensed life insurer must report the likely failure to the Insurance Regulator as soon as is reasonably practicable.

Compliance with the solvency standard is a continuous obligation. As a minimum a licensed life insurer must undertake calculations as required under this solvency standard twice each year – as at its financial year end and as at six months after its financial year end – and report those calculations to the Authority.

In accordance with the Act each licensed life insurer is required to appoint an actuary to:

detail all assumptions used in the calculation of the Solvency Margin, separately distinguishing assumptions made on the following bases:

1. best estimate;

2. solvency assumptions;

identify those assumptions to which the licensed insurer’s Solvency Margin is most sensitive (“key sensitivities”) and quantify those key sensitivities;

The appointed actuary may need to deal with issues that are not within the relevant skills and experience of the company in-house actuary. In this situation the appointed actuary will need to utilize the skills and experience of others and may rely on other relevant experts provided adequate disclosure is included on the nature of that reliance.

Responsibility for solvency calculations

The appointed actuary of the licensed life insurer is responsible to the board of the licensed life insurer for performing or reviewing all aspects of the Solvency Margin calculations to ensure the calculations are complete and accurate.

The board of the licensed life insurer is responsible for ensuring that all requirements of this solvency standard and the Act are satisfied.

Simplifying Assumptions or Methodologies contained in Solvency Calculations

Test is:

Required capital=

8% of technical reserves

plus 0.3% of net amount at risk

Note the calculations for both of the above percentages are completed at the end of the fiscal year.

Solvency Ratio= Actual Solvency Capital / Required capital must be greater than 1(one)

At 75% of the Solvency Ratio the Authority will intervene in operations of company

At 50% of the Solvency Ratio the Authority will take over company.

This solvency standard represents minimum requirements. Accordingly, if any simplifying assumptions are made or simplifying methodologies are used in calculating the licensed insurer's Solvency Margin, the appointed actuary must:

Ensure that such simplifying assumptions or methodologies result in a more prudent assessment of the licensed insurer's Solvency Margin;

Disclose such simplifying assumptions or methodologies in any associated reports; and

Justify such simplifying assumptions or methodologies on the grounds of materiality or that they provide a more conservative outcome

General Provisions relating to Capital

For the purpose of calculating solvency standards the accounts of the licensed insurer must be prepared in accordance with the International Accounting Standards.

The Capital of a licensed life insurer is intended to represent capital instruments that are of a permanent nature and freely available to meet losses. If a capital instrument is not of a permanent nature and freely available to meet losses, then the appointed actuary must give advice to this effect to the licensed insurer, and subsequently to the Insurance Regulator. If the appointed actuary recommends that part or all of the value of a capital instrument should be excluded from the Solvency margin, then the licensed insurer must follow that advice.

Obligations of a licensed life insurer

7.1. Appointment of an Actuary

Each licensed life insurer must appoint an actuary, as required by the Act. The suitability of an actuary for the role is the responsibility of the licensed life insurer and must be dealt with in its fit and proper policy. The appointed actuary must hold an appropriate professional qualification approved by notice to the licensed life insurer from the Authority.

7.2. Licensed life Insurer must provide Solvency Returns to the Authority

The Act allows the Authority to issue solvency standard(s) that include requirements for reports relating to the solvency of a licensed life insurer and the frequency with which such reports must be provided to the Authority.

7.3. Frequency of Solvency Returns to the Authority

All solvency reports must be signed by two directors of the licensed life insurer and be submitted every 12 months in the format specified by the Authority. The annual return is required within 3 months after the end of the insurers financial year; and

The solvency reports will be accompanied by:

- (i) A copy of the audited financial statements of the licensed life insurer; and
- (ii) A report by the auditor of the licensed life insurer on the audit of the solvency return; :

Note the Authority may, at its discretion, require the licensed life insurer to provide the Authority with solvency returns on a more frequent basis, and in such format and subject to such verification or attestation as it may require.

7.4. Audit of Annual Solvency Return

A licensed life insurer must engage its auditor to undertake an audit of the annual solvency return and must do everything necessary to allow the auditor to undertake this function.

The auditor's report on the solvency return must address the matters prescribed in this solvency standard and must be signed by the auditor.

7.5. Disclosure of Solvency Calculations

A licensed life insurer must disclose in its annual financial statements and on its website (if any) the licensed life insurer's current Solvency Margin for the Life Fund, from its most recent annual solvency return.

In addition an aggregate Solvency Margin must be disclosed for all Life Funds of the licensed life insurer. Website disclosure must reflect the solvency position in the latest financial statements provided to the Authority.

Following submission of its half-yearly solvency return to the Authority, a licensed life insurer must update the disclosure on its website (if any) to reflect the solvency position reported in that half-yearly return.

7.6 Advice to the Authority on likely breach

If a licensed life insurer has reasonable grounds to believe that a failure to maintain a Solvency Margin is likely to occur at any time within the next three years, the licensed life insurer must report the likely failure to the Authority as soon as is reasonably practicable.

In order to comply with the solvency standards a licensed life insurer will need to consider a forward looking assessment of its compliance with the solvency standard in addition to the calculations at the most recent balance date.

The forward looking assessment must extend at least three years

Because the solvency standard applies continuously, not just once a year, a licensed life insurer will need to be satisfied that it has adequate procedures in place to identify and escalate circumstances that may give rise to a reporting obligation on any identified issues that may adversely impact on their financial position. Those procedures must include timely advice to the licensed insurer's appointed actuary.

Obligations of the appointed actuary

8.1. Financial Statements

A review by a licensed insurer's appointed actuary of actuarial information in the financial statements is required annually. The Authority will specify, within the solvency standard, the information which is actuarial information for the purpose of the solvency standard. The specified information for the purpose of this solvency standard is:

The Policy Liability;

The reinsurance and any other recovery asset(s) relevant to the Policy Liability, or relevant to outstanding claims reserves or incurred but not reported claims reserves held outside of the Policy Liability;

Any deferred or other tax asset relevant to the Policy Liability;

Any deferred acquisition cost or deferred fee revenue relevant to the Policy Liability;

The unvested policyholder benefits liability; and

Any other information deemed by the appointed actuary to warrant actuarial review for the purpose of profit or solvency reporting.

If it is a licensed life insurer's established policy to seek the advice of the appointed actuary in respect of part or all of this information and to always adopt that advice in its financial statements, then the advice from the appointed actuary to the licensed life insurer satisfies the review requirements of this solvency standard.

In other circumstances the appointed actuary must undertake whatever additional work is necessary in order to complete the review for the purposes of this solvency standard.

The results of the appointed actuary's review must be documented in a report that meets the requirements of the Act.

8.2. Solvency Calculations

The appointed actuary must perform or review a licensed life insurer's calculations of Solvency Margin in accordance with this solvency standard.

Guideline 2: Regulations for Non-Life Insurance Solvency Standards**1. Short title and commencement**

- (1) These regulations may be called Solvency Standards for Non-Life Insurance.
- (2) These regulations detail the requirements of Solvability clause 93 of the Insurance Law 2011.
- (3) They shall come into force on the date of their publication in the []

The context of Solvency

The solvency margin of an insurance company is the surplus of assets over liabilities, both evaluated in accordance with accounting and supervisory standards. In general, an insurer's solvency relies on the prudent investment of assets corresponding to its policy liabilities. A company's solvency is not fully determined by its solvency margin alone. Solvency requirements should reflect the size, complexity and business risks of insurance companies.

The commitments of non-life-insurers are generally within 12 months. When assessing the value of an asset to be included for solvency purposes, the nature of the asset should be considered as well as the

valuation method used. These should have regard to how liquid the asset is in order to meet policyholder liabilities in a timely manner.

Insurers licensed to conduct business in Lao PDR are required to maintain minimum solvency requirements at all times. These are set out in general terms in clause 93 of the Insurance Act. The requirements for life insurers are different from the requirements for non-life insurers.

2. Definitions and Interpretations.-

In these regulations, unless the context otherwise requires, -

- (a) *“Act” means the Law on Insurance 2011;*
- (b) *“Authority” means the Insurance regulator the relevant department in Ministry of Finance “MOF”*
- (c) *“Designated person” means a responsible person in the Insurance Regulator’s office who has been delegated authority to make decisions on financial statements submitted by life insurance companies.*
- (d) *“Capital sufficiency” means Capital minus Deductions from Capital. The definition of what can be used as part of capital and what is included in deductions from capital are detailed in the tables below.*

- (e) All licensed non- life insurers in Lao PDR are required to maintain at all times a surplus of assets over liabilities of not less than-
- i. 16,000,000 kip ; or
 - ii. 20% of the amount of net premium income derived in Lao PDR during the last 12 months; or
 - iii. 15% of net claims outstanding provision in respect of policies in Lao PDR, whichever is the greatest.

In addition to this, a non- life insurer incorporated in Lao PDR is required to maintain at all times paid up capital of not less than 16,000,000. kip,

(f) Recognition of Assets in the Calculation of Solvency

The following assets will not be included for solvency calculation:

- i. A loan to a person who is, or when the loan was made, was-
 - a director, principal officer, manager, actuary or auditor of the insurer;
 - a director or principal officer of a body corporate related to the insurer;
 - the spouse or other immediate family member of a person referred to in the previous two paragraphs;
 - ii. An unsecured loan to a person who is, or when the loan was made was ,an employee of the insurer ;
 - iii. An asset that is mortgaged or charged for the benefit of a person other than the insurer to the extent of the value of the mortgage or charge;
 - iv. An unpaid premium, that became due to the insurer more than 3 months previously;
 - v. An amount due from a reinsurer that became due more than 3 months;
 - vi. A guarantee given to or in relation to the insurer; and
 - vii. Any other intangible asset.
- (g) The Authority may after application from an insurer, approve as an asset to be included for solvency calculations, the following:
- i. If the Authority is satisfied that a loan is sufficiently secured and the terms and conditions upon which the loan is offered are of a commercial arms-length nature and not unduly favorable to the borrower.
 - ii. If the unpaid premium and amount due from reinsurers , became due to the insurer more than 3 months but not more than 6 months previously, and the Authority is satisfied that the premiums and the amounts due will be paid;
- (h) For the purposes of when to include related party loans the following criteria are considered:
- i. When that person directly or indirectly controls, by any means whatsoever, the management of the insurer;
 - ii. That person owns directly or indirectly 20% or more in nominal value of the equity share capital;
 - iii. The insurer directly or indirectly controls, by any means whatsoever that person; or
 - iv. The insurer owns directly or indirectly 20% or more of the equity share capital, of that person.
- (i) Valuation of Assets
- i. The value of an asset of an insurer as at a particular time is to be the market value of the asset at that time valued in accordance with the standards of International Accounting.

- ii. Property valuation techniques used by insurers should be consistent with the procedures adopted by financial sector or the Institute of Valuation and Land Management.

(j) Valuation of Liabilities

- i. In computing the amount of the liabilities of an insurer, all contingent and prospective liabilities (other than liability in respect of share capital) must be taken into account. Contingent liabilities are those liabilities, which may not actually eventuate i.e. contingent on something happening, but they nevertheless have the potential to adversely impact on policyholders' funds.
- ii. The Deferred Acquisition Cost asset is for prudential solvency purposes and is largely an intangible asset. A component of this asset may however, be recoverable, if necessary, in relation to the unearned proportion of commission paid to intermediaries. For solvency purposes, this asset will be permitted up to 75% of the commission component of the deferred acquisition cost.
- iii. Insurers are required to record unearned premium provision using the 24ths method as basis of valuation, or the more refined 365ths method.
- iv. The Regulator will, as it deems necessary, require licensed non-life insurer to submit actuarial assessments of liabilities to support the insurers' assessment of its solvency.

Guideline 3: Regulations for Reporting standards for Life and Non- Life Insurance

1. Short title and commencement

- (1) These regulations may be called Reporting Standards for Life and Non-Life Insurance.
- (2) These regulations detail the requirements of Solvability clauses 89 and 100 of the Insurance Law 2011
- (3) They shall come into force on the date of their publication in the []

2. Annual Reporting Requirements

- (a) Audited financial statements prepared in accordance with internationally recognized accounting standards by an independent auditor approved by the Authority, together with a copy of any prescribed management letter issued by the auditor. These reports are to be filed no later than 3 months after year end.
- (b) An actuarial valuation of the company's business certified by an actuary approved by the Regulator, in accordance with the form issued by the Regulator.
- (c) Certification of solvency prepared by a person approved by the Regulator.
- (d) Reinsurance Report which should include :-
 - i. Copy of all reinsurance cover notes as evidence of reinsurance cover;
 - ii. Facultative reinsurance contracts where the premium for any particular cover exceeds 10% of the gross written premium for the class; and
 - iii. Cessions to other reinsurers which may be grouped geographically.

- (e) A list of all agents and brokers with authority to solicit business on behalf of the company and brokers with whom business has been transacted during the reporting year and confirmation that the agents are fit and proper persons.
- (f) A summary of the company's structure and business, as Appendix 1
- (g) Summary of business for the year by product line using forms as Appendix 2
- (h) Such other information as may be required on a request basis

3. Quarterly reporting requirements

Quarterly filings to be furnished by every insurer to the Insurance Regulator no later than 15 days after quarter end

- i. Balance sheet;
- ii. Income statement
- iii. Solvency Margin Test;
- iv. Admitted assets calculation;
- v. Receivables from brokers, agents, and policyholders;
- vi. Receivables from insurers and reinsurers;
- vii. Payables outstanding to insurers and reinsurers;
- viii. External reinsurance payments;
- ix. Facultative business ceded;
- x. Quarterly filings of an insurer shall be attested by the company chief executive officer that the statements thereof represent a true and fair view of the state of affairs of the company as at quarter end.

Annex 1

*the Insurance Regulator is recommended to develop the request for information into a table format

ANNUAL FILING FOR INSURERS

For the year ended 31 December: _____

A. Background Information

List the details for each of the following headings

A.1: Company and Branch Office Particulars

A.2: Share Capital of Company

A.3: Major Company Shareholders and share capital paid up

A.4: Board of Directors; detailing date of appointment, qualifications and experience

A.5: Company Officers; senior staff reporting to CEO, include date of appointment and qualifications and experience

A.6: Company Advisors; include legal, accounting, auditors, fund managers, and actuaries

A.7: Group Organization Chart

A.8: Company Organization Chart

A.9: Other Information

ATTESTATION

1. Directors

The directors of the insurance company are required under the Companies Ordinance to:

Prepare financial statements that give a true and fair view of the state of affairs of the company during and at the end of the financial year;

Confirm that suitable accounting policies have been applied and that prudent judgments and estimates have been made in the preparation of the financial statements;

Keep proper accounting records which disclose with reasonable accuracy the financial position of the company; and,

Safeguard the assets of the company and take reasonable steps to prevent and detect fraud, error and other irregularities.

The directors of this company confirm that they have met these requirements during the year and that the information contained in this filing is based on and consistent with the information contained in the audited financial statements of the company for the year ended

Chairperson of Board of Directors Director

2. Auditor

In our opinion, the audited financial statements of this company for the year ended _____ give a true and fair view of the state of affairs of the company as at _____ in accordance with International Financial Reporting Standards except as follows:

We also confirm that we have reviewed the financial information contained in this filing and are of the opinion that, except for differences in presentation, it is consistent with the financial information reported in the audited financial statements of the company.

Auditor

3. Actuary (if applicable)

I, _____, have conducted an investigation as at _____ and certify as follows:

The actuarial liabilities of the company have been investigated and assessed by me in accordance with the provisions of the Act and Regulations;

The assets have been based on the balance sheet values on the basis detailed in the financial statements and approved by the auditors;

In my opinion, the value of the actuarial liabilities is exceeded by the value of the net admitted assets of the business of the company by _____. (OR)

UNDERWRITING REPORT Non-Life Insurance						
Category	Property	Motor	Health	Engineering	Other	Total
Premiums						
Gross written premium(a)						
Reinsurance assumed (b)						
Commissions rec'd (c)						
Reinsurance premium ceded (d)						
Net unearned premium adjustment (e)						
Total underwriting income (1) (a+b+c+d+e)						
	Property	Motor	Health	Engineering	Other	Total
Claims						
Gross Claims paid (f)						
Claims o/s adjustment (g)						
Recoveries on unpaid claims (h)						
IBNR adjustment (i)						
R/I recoveries on paid claims (j)						
Total underwriting						

expenses (2) (f+g+h+i+j)						
Commission paid (k)						
Other underwriting expenses (L)						
Subtotal(3) K+L						
Underwriting result (1-2-3)						

Guideline 4: Regulations for Reserving Standards Life and Non- Life Insurance

1. Short title and commencement
<p>(1) These regulations may be called Reserving Standards for Non-Life Insurance.</p> <p>(2) These regulations detail the requirements of Solvability clauses 89 and 90 of the Insurance Law 2011.</p> <p>(3) They shall come into force on the date of their publication in the []</p>
2. Introduction
<p>The Requirements set out in this regulations are the minimum requirements which companies are required to comply with in relation to reserving. Compliance includes the preparation and submission of a statement of actuarial opinion to the Insurance Regulator at least every 2 years on the insurer's reserves. The Insurance Regulator may vary this time requirement from time to time. While the Signing Actuary is an important source of expert advice on technical matters the company, acting through the Board of Directors, retains primary responsibility for the governance of the company, its viability and its reserves and shall not abrogate its responsibilities in relation to reserving to the Signing Actuary.</p>
3. Reserving Policy
<p>The Board shall establish and implement a clear Reserving Policy on an annual basis and submit the policy to the Insurance Regulator for review. The reserving policy shall set out, at a minimum, the following:</p>

- (a) The Company's approach to reserving and the reserving objectives;
- (b) An overview of the company's reserving process, including key roles and responsibilities;
- (c) Key controls for reserving; and
- (d) The purpose of the Margin for Uncertainty and how it is calculated.

The details of the reserving policy will be expected to include:

- (a) Each class of insurance business the following reserves-
 - i. Reserves for unexpired risks;
 - ii. Reserves for outstanding claims; and
 - iii. Capital reserves known as contingency reserves to cover fluctuations in securities and variation in statistical estimates.
- (b) An insurer shall maintain with respect to non-life insurance business the following reserves-
 - i. In the case of reserves for outstanding claims, the reserve shall be no less than the total estimated amount of all outstanding claims together with a further amount of not less than the greater of twenty percent of the estimated amount of outstanding claims or five percent of net premiums earned; and
 - ii. In the case of contingency reserves, reserves which shall not be less than three percent of the total premium or twenty percent of the net profits whichever is the greater and that amount shall accumulate until it reaches the minimum paid up capital or fifty percent of the net premium whichever is the greater.
- (c) An insurer shall maintain with respect to long term insurance, (predominately applicable to life insurance) , the following reserves–
 - i. A general reserves fund which shall be credited with an amount equal to the net liabilities on policies in force at the time of the actuarial valuation; and
 - ii. Contingency reserves which shall be credited with an amount equal to one percent of the premiums.

The Insurance Regulator will review and authorize each company's reserving policy on an annual basis. The adoption of a policy based approach recognizes that all insurers offer different products which have a different risk profile. It is not considered appropriate to set specific percentages for specific product categories or products as these percentages may not match the risk profiles of each insurer.

The Insurance Regulator will monitor the reserves in the financial returns from the company against the stated policy for each company.

Guideline 5: Regulations on Compulsory Motor Vehicle Third Party Insurance in Laos PDR

These regulations have been drafted by consultant for the purposes of:

- A review by MOF;
- The distribution of the regulation to insurance stakeholders to obtain feedback from insurance stakeholders on the regulation; and
- The Finalization of the regulation after reviewing the feedback to submit to the Minister of Finance.

1. Compulsory Motor Vehicle Third Party Insurance

2. Short Title and Commencement

2.1. These regulations shall be called the Compulsory Motor Vehicle Insurance Regulations;

2.2. These regulations regulate Compulsory Motor Vehicle Insurance as provided by Article 12 of the Insurance Law which empowers the Insurance Regulator to establish rules concerning common policy conditions and premium requirements for the provision of Compulsory Motor Vehicle Insurance.

2.3. These regulations shall come into force on the date of their publication in the []

3. Definitions and Interpretations

3.1. In these regulations, unless the context otherwise requires:

3.1.1. "Act" means the Insurance Law dated 21 November 2011;

3.1.2. "Authority" means the Insurance Regulator the relevant department within the Ministry of Finance "MOF";

3.1.3. "Designated person" means a responsible person in the Insurance Regulator's office who has been delegated authority to make decisions on compulsory motor vehicle insurance matters;

3.1.4. "Compulsory motor vehicle insurance" means an insurance contract in accordance with the requirements of the Act;

3.1.5. "Policy holder" means a person who has contracted with an insurer under compulsory motor vehicle insurance and whose name is mentioned in the certificate of insurance as the policy holder;

3.1.6. "Registered Motor Vehicle" means a vehicle that has registration plates..;

3.1.7. "Standard policy" means the compulsory motor vehicle insurance policy that has been authorized by the Authority.

4. Scope and Purposes of this Regulation

4.1. This Regulation shall apply to all insurance companies providing CTPL motor vehicle insurance.

4.2. The purposes of this regulation are:

4.2.1. To establish the requirements, terms and conditions in a policy providing for CTPL insurance and

4.2.2. To establish requirements for the conduct of business of insurance companies dealing with CTPL insurance.

5. Authority's responsibilities

- 5.1. The Authority shall define the conditions and methods of business for companies dealing with CPTL insurance and will provide supervision of such activity.
- 5.2. Insurance companies must submit all proposed CTPL insurance policy conditions and insurance premium forms to the Authority for prior approval.

6. Provisions

- 6.1. All Registered Motor Vehicles must have a valid compulsory insurance contract with a Lao PDR licensed insurance company.
- 6.2. CTPL insurance shall be compulsory for owners and users of motor vehicles destined for the transport of persons and things, trailers as well as working vehicles and tractors, which according to registration regulations have to obtain a traffic license.
- 6.3. A contract of compulsory insurance for a minimum coverage period of one (1) year shall be concluded before the motor vehicle enters in traffic and shall be renewed for the period the vehicle is in use. However, in the case of transfer of ownership of a motor vehicle, a contract Compulsory insurance may be conducted for a period less than (1) year to coincide with the vehicle registration expiry date.
- 6.4. In the event of dissolution of any insurance company engaged in CTPL insurance, the owners or registered users of the insured motor vehicles, referred to in paragraph one of this Sub-section, shall conclude replacement CTPL insurance contracts with other insurance companies. They shall conclude contracts with these insurance companies within eight days from the time the dissolution or winding up of the insurance company that issued the CTPL is announced in the media.
- 6.5. An insurance company licensed and engaged in CTPL insurance may not refuse any application for insurance and is obliged to conclude CTPL insurance contracts on the basis of announced insurance conditions and published premiums.



FAMILY LIFE INSURANCE

Guideline 6: Regulations on Investment for a Non-Life Company

These regulations have been drafted by consultant for the purposes of

- A review by MOF;
- The distribution of the regulation to insurance stakeholders to obtain feedback from insurance stakeholders on the regulation; and
- Finalize the regulation after reviewing the feedback to submit to the Minister of Finance.

1. Short Title and Commencement

- 1.1. These regulations shall be called the Investment for a non-life company regulations;
- 1.2. These regulations regulate the investments of a non-life insurance company as provided by Article 24 of the Insurance Law which empowers the Insurance Regulator to establish rules concerning investment conditions and requirements for the provision of Investments by a non-life insurance company.
- 1.3. These regulations shall come into force on the date of their publication in the []

2. Definitions and Interpretations

2.1 In these regulations, unless the context otherwise requires, -

- 2.1.1 "Act" means the Insurance Law 21 November 2011;
- 2.1.2 "Authority" means the Insurance Regulator, the relevant department in the Ministry of Finance (MOF)
- 2.1.3 "Designated person" means a responsible person in the Insurance Regulators office who has been delegated authority to make decisions on investments of the insurance company.
- 2.1.4 'Assets' means all the assets of insurer, at their carrying value, shown in the insurance company's Statement of Financial Position as defined by either the International Financial Reporting Standards or the Accounting Council of Lao PDR whichever the authority deems applicable.
- 2.1.5 "Investments" means all the insurance company's funds and assets that are not required at the time to cover the daily operating costs of the company. Note with reference to Article 24 of the Insurance Law the insurance business operator shall have a security deposit of one third of the registered capital for the company at any commercial bank that has financial stability established in the territory of Lao PDR and this shall be reported to the Authority.

3. Scope and Purposes of this regulation

- 3.1 This regulation shall apply to all insurance companies providing CTPL motor vehicle insurance.
- 3.2 The purposes of this regulation are:
 - 3.2.1 To establish requirements, terms and conditions in a policy providing for investments to be made by a non-life insurance company; and
 - 3.2.2 To establish requirements for the conduct of a non-life insurer dealing with investments.

4. Provisions

4.1 Investments

Every non-life insurance company shall invest their capital and surplus funds in the following manner. This provision details the requirements of Article 24 in the Insurance Law. A nonlife company has a need for cash to be readily available to meet claims as they arise, therefore at least 65% of bank deposits will be invested for periods no longer than 90 days.

Type of investment (Asset Classes)	Percentage range
Bank deposits *	50 to 90%
Real estate *1	0 to 10%
Loans *2	
Other investments *3	0 to 15%
Bonds*4	0-60%
Compulsory Deposit of capital	33%

* a registered bank in Lao PDR acceptable to the authority

1 all real estate investments will be subject to approval of the authority. Real estate investments will need to demonstrate a sustainable return from a confirmed tenant. Speculative real estate investments will not be permitted.

2 all loans must be fully secured and the amount advanced should not exceed 70% of the value of the assets secured. Loans are only available on the security of property and should be amortized over a maximum of 20 years.

3 other investments; each investment will be subject to the approval of the authority, these investments may be shares listed on the Lao PDR stock exchange, investments in private and public partnerships that have government ownership, deposits in microfinance organizations in Lao PDR and international investment trusts.

4 bonds will include: government bonds, corporate and bank bonds that have been approved as an appropriate investment by the authority.

(i) the authority has the right to require the insurer to divest any investment the authority deems as an inappropriate investment

(ii) An investment in an asset in which the insurance company has a controlling interest shall be limited to a maximum of 10% of the assets invested.

4.2 Duty to Report extraordinary events affecting the investment portfolio

Every insurer shall report to the Authority forthwith, the effect or the probable effect of any event coming to his knowledge, which could have material adverse impact on the investment portfolio and consequently on the security of policyholder benefits or expectations.

4.3 Requirement to set up investment committee

4.3.1 Every insurer shall constitute an Investment Committee which shall consist of a minimum of two non-executive directors of the Insurer, the Principal Officer (i.e. in some organizations this

position maybe the Chief Executive Officer or the General Manager or the Country Manager.), Chiefs of Finance and Investment divisions, and wherever an appointed actuary is employed, the Appointed Actuary. The decisions taken by the Investment Committee shall be properly recorded and be open to inspection by the officers of the Authority.

4.3.2 Every insurer shall draw up an Investment Policy annually and place the same before its Board of Directors for its approval. The details of the Investment Policy and any changes as a result of its six monthly review that have been decided by the Board shall be submitted to the Authority within 30 days of its decision. The Authority may call for further information from time to time from the insurer as it deems necessary and in the interest of policyholders issue such directions to the insurers as it thinks fit.

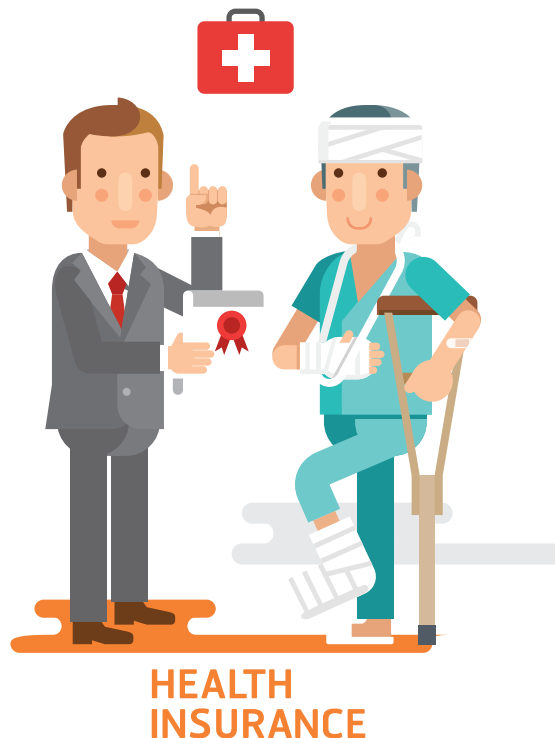
4.3.3 The investment policy as approved by the Board will be implemented by the investment committee, which shall keep the Board informed every quarter about its activities.

4.3.4 The Board shall review its investment policy and its implementation on a 6 monthly basis or at such short intervals as it may decide and make such modifications in its existing investment policy as are necessary to bring them in tune with the requirements of law and regulations – in regard to protection of policyholders' interest and pattern of investment laid down.

4.3.5 In addition the investment committee is required to implement and monitor the insurers' asset and liability program within the investment policy.

5. Anti-Money Laundering "AML"

Every insurer shall provide the authority with its AML policies and controls on an annual basis and in addition it is required to immediately report to the authority any transactions that are considered contrary to the requirements of AML legislation in Lao PDR.



Guideline 7: Regulations on Investment for a Life Company

These regulations have been drafted by consultant for the purposes of

- A review by MOF;
- The distribution of the regulation to insurance stakeholders to obtain feedback from insurance stakeholders on the regulation; and
- Finalize the regulation after reviewing the feedback to submit to the Minister of Finance.

1. Short Title and Commencement

1.1. These regulations shall be called the Investment by a life insurance company Regulations;

1.2 These regulations regulate the investments of a life insurance company as provided by Article 24 of the Insurance Law which empowers the Regulator to establish rules concerning investment conditions and requirements for the provision of Investments by a life insurance company.

1.3 These regulations shall come into force on the date of their publication in the []

2. Definitions and Interpretations

2.1 In these regulations, unless the context otherwise requires, -

2.1.1 "Act" means the Insurance Law 21 November 2011;

2.1.2 "Authority" means the Insurance Regulator, the relevant department in The Ministry of Finance (MOF)

2.1.3 "Designated person" means a responsible person in the Insurance Regulator's office who has been delegated authority to make decisions on investments of the insurance company.

2.1.4 'Assets' means all the assets of insurer, at their carrying value, shown in the insurance company's Statement of Financial Position as defined by either the International Financial Reporting Standards or the Accounting Council of Lao PDR whichever the authority deems applicable.

2.1.5 "Investment fund" means all the life insurance company's funds, if the company carries on no other class of insurance business; Thus, the investment fund for a life insurance company can include traditional life assurance funds (group, individual), annuity funds, any investments that may have been funded from subordinated debt or any other debt raised by the company that has been authorized by the authority and shareholders fund. Note with reference to Article 24 of the Insurance Law the insurance business operator shall have a security deposit of one third of the registered capital for the company at any commercial bank that has financial stability established in the territory of Lao PDR and this shall be reported to the Authority....

3. Scope and Purposes of this regulation

3.1 This regulation shall apply to all insurers who are required to invest funds in a prudent manner.

3.2 The purposes of this regulation are:

3.2.1 To establish requirements, terms and conditions providing for investments to be made by a life insurance company and

3.2.2 To establish requirements for the conduct of a life insurer dealing with investments.

4. Provisions

4.1 Investments

Every life insurance company shall invest and at all times keep invested the investment fund in the following manner. This provision details the requirements of Article 24 in the Insurance Law.

Type of investment (Asset Classes)	Percentage range
Bank deposits *	30 to 90%
Real estate *1	0 to30%
Loans *2	0 to 30%
Other investments *3	0 to 15%
Bonds*4	0-60%
Compulsory Deposit of capital	33%

* a registered bank in Lao PDR acceptable to the authority

1 all real estate investments will be subject to approval of the authority. Real estate investments will need to demonstrate a sustainable return from a confirmed tenant. Speculative real estate investments will not be permitted.

2 all loans must be fully secured and the amount advanced should not exceed 70% of the value of the assets secured. Loans are only available on the security of property and should be amortized over a maximum of 20 years.

3 other investments: each investment will be subject to the approval of the authority; these investments may be shares listed on the Lao PDR stock exchange, investments in private and public partnerships that have government ownership, deposits in microfinance organizations in Lao PDR and international investment trusts

4 bonds will include: government bonds, corporate and bank bonds that have been approved as an appropriate investment by the authority.

(i) the authority has the right to require the insurer to divest any investment the authority deems as an inappropriate investment

(ii) An investment in an asset in which the insurance company has a controlling interest shall be limited to a maximum of 10% of the assets invested.

4.2 Duty to Report extraordinary events affecting the investment portfolio

Every insurer shall report to the Authority forthwith, the effect or the probable effect of any event coming to his knowledge, which could have material adverse impact on the investment portfolio and consequently on the security of policyholder benefits or expectations.

4.3 Requirement to set up investment committee

4.3.1 Every insurer shall constitute an Investment Committee which shall consist of a minimum of two non-executive directors of the Insurer, the Principal Officer (i.e. in some organizations this position maybe the Chief Executive Officer or the General Manager or the Country Manager.), Chiefs of Finance and Investment divisions, and wherever appointed actuary is employed, the Appointed Actuary. The decisions taken by the Investment Committee shall be properly recorded and be open to inspection by the officers of the Authority.

4.3.2 Every insurer shall draw up an Investment Policy annually and place the same before its Board of Directors for its approval. The details of the Investment Policy and any changes as a result of its six monthly review that have been decided by the Board shall be submitted to the Authority within 30 days of its decision. The Authority may call for further information from time to time from the insurer as it deems necessary and in the interest of policyholders, issue such directions to the insurers as it thinks fit.

4.3.3 The investment policy as approved by the Board will be implemented by the investment committee, which shall keep the Board informed every quarter about its activities.

4.3.4 The Board shall review its investment policy and its implementation on a 6 monthly basis or at such short intervals as it may decide and make such modifications in its existing investment policy as are necessary to bring them in tune with the requirements of law and regulations – in regard to protection of policyholders' interest and pattern of investment laid down.

4.3.5 In addition the investment committee is required to implement and monitor the insurers' asset and liability program within the investment policy.

4.4 Anti Money Laundering "AML"

Every insurer shall provide the authority with its AML policies and controls on an annual basis and in addition it is required to immediately report to the authority any transactions that are considered contrary to the requirements of AML legislation in Lao PDR.



**RESIDENCE
INSURANCE**

Guideline 8: Regulations on Accounting for Licensed Insurers

These regulations have been drafted by consultant for the purposes of

- A review by MOF;
- The distribution of the regulation to insurance stakeholders to obtain feedback from insurance stakeholders on the regulation; and
- Finalize the regulation after reviewing the feedback to submit to the Minister of Finance.

1. Short Title and Commencement

These regulations shall be called the accounting for licensed insurers regulations;

These regulations regulate the accounting for insurers as provided by Articles; 91, 96 and 97 of the Insurance Law which empowers the Authority to establish rules concerning accounting conditions and requirements for the provision of accounting in a transparent manner for all licensed insurers.

These regulations shall come into force on the date of their publication in the []

2. Definitions and Interpretations

2.1 In these regulations, unless the context otherwise requires, -

2.1.1 “Act” means the Insurance Law 21 November 2011;

2.1.2 “Authority” means the Insurance Regulator the relevant department in The Ministry of Finance (MOF)

2.1.3 “Designated person” means a responsible person in the Insurance Regulators office who has been delegated authority to make decisions on financial statements submitted by insurance company.

2.1.4 “Annual Returns” means the regulatory statements which are required to be presented by insurance companies to the Authority as specified by the Authority in circulars or the regulations. The Authority shall send a circular at the beginning of each financial year detailing the regulatory statements required and timing for the filing. At a minimum the regulatory statements to be filed with the Authority will include; the audited financial statements, the auditor’s report and the actuarial report.

2.1.5 “Audited financial statements” Article 98 Auditing the Financial Statement of the Insurance Law requires Annual financial statement of insurers and insurance brokers must be certified by an independent auditor or relevant state management. In addition to this requirement of the law the financial accounts are required to be published by the insurance company within three (3) months after the end

of financial year of a licensed insurer., .The licensed insurer shall make public the a summary of the audited financial statements as required by the Authority. The summary statement will include a

Statement of Financial Position setting out the total assets and liabilities with the shareholders’ funds of the company detailed, a Statement of Comprehensive Income that shows revenue earned by the company and summary of the most top four expense categories by value (noting that one of these categories will be a total for miscellaneous expenses, this sector being all expenses that are not included in the 3 highest expense categories). The publication of the summary financial statements will indicate a website where detailed Audited Financial Statements are available.

2.1.6 “Par” means Participating fund where policyholders have the opportunity to obtain a share of the profits of the company for the benefit of their policy. This definition is for Life Insurance companies only.

2.1.7 “Non-Par” means all values related to the policy (death benefits, cash surrender values, premiums) that are determined at policy issue, for the life of the contract, and usually cannot be altered after issue. This definition is for Life Insurance Company’s only.

3. Scope and Purposes of this regulation

3.1 This regulation shall apply to all licensed insurers and organizations providing insurance services.

3.2 The purposes of this regulation are:

3.2.1 To establish requirements for accounting in a transparent manner for all insurers and

3.2.2 To establish requirements for the conduct of organizations providing accounting services for insurers.

4. Provisions

4. 1. Applicability

4.1.1 These accounting regulations shall be applied to the Annual Returns (refer to Article 97 of Insurance Law for definition and requirement of the financial year), required by the Authority and the Audited Financial Statements, except insofar as:

4.1.1.1 Any of its provisions includes an express statement that it is not to apply to the annual returns or to the audited financial statements, as the case may be; and

4.1.1.2 A provision contained in the Accounting Law dated 2 July 2007 that has been issued and will override any provisions in these Accounting for insurance regulations so far as concerns the audited financial statements.

4.1.1.3 The Insurance Company's shall comply, as it is practical for with regard to the recognition and measurement of assets, liabilities, expenses and revenues, with the relevant Lao PDR Financial Reporting Standards and any advice issued by the Accounting Council of Lao PDR other than those standards where these regulations specifically provide for a different treatment.

4.1.1.4 The Authority will issue a circular with information requirements for quarterly and other periodic filings. Refer to Article 100 of Insurance Law for requirements to publish financial reports.

4.2. The form of the Audited Financial Statements

4.2.1 The form of Audited Financial Statements (refer to Article 91 and Article 99 of Insurance Law for requirements) shall consist of the following which shall be submitted according to either published Forms from the Accounting Council in Lao PDR or from the Authority that are annexed to these regulations from time to time:

4.2.1 The following forms are required to be filed under the accounting insurance regulations;

- (a) Statement of Financial Position
- (b) Statement of Comprehensive Income
- (c) Statement of Changes in Equity
- (d) Statement of Cash Flows

4.2.2 Where the forms contain classifications which are not applicable to the reporting insurer, then the insurer should return the form to the Authority with a NOT APPLICABLE statement written on the form.

4.2.3 The Audited Financial Statements shall also include, as Notes to the Accounts, other information required to be disclosed by any Accounting Standards advised by the Accounting Council or contained within the Lao PDR Accounting Law, or the listing rules of any stock exchange on which the shares of the insurer are listed.

4.2.4 Auditor will note if the insurance company follows the check list required by the Financial Intelligence Unit as to the insurance company's compliance with Anti Money Laundering regulations.

4.2.5 Any statement or Note included in the Audited Financial Statements shall separately disclose,

side by side, the amounts and other information to be reported in respect of the investment fund of the life company and in respect of the aggregates of the non-par and the par funds within the investment funds... Note par funds are only relevant for life companies. .

4.2.6 Disclosure, measurement and recognition requirements of the Accounting Council and the Accounting Law deemed applicable for use in Lao PDR by the Accounting Council shall, apply equally and separately to the amounts and other information presented in respect of the aggregated investment funds and the amounts and other information presented in respect of the par and non-par funds that are included in the investments funds of the company. Note par funds are only relevant for life companies.

4.2.7 In addition to requirements set out in the accounting standards the following aspects of the insurance companies are to be disclosed by way of notes to the Statement of Financial Position :

Contingent Liabilities defined as provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and possible obligations and present obligations that are not probable or not reliably measurable. Provisions for contingent liabilities are measured at the best estimate (including risks and uncertainties) of the expenditure required to settle the present obligation, and should reflect the present value of expenditures required to settle the obligation where the time value of money is material. Some specific examples in an insurance operation could be: partly paid investments, underwriting commitments outstanding, claims, other than those under policies, not acknowledged as debts, guarantees given by or on behalf of the company, statutory demands/ liabilities in dispute that are not provided for and reinsurance obligations to the extent that they are not provided for in the accounts. Other information to be disclosed in the notes to the accounts:

Encumbrances to assets of the company in and outside Lao PDR.

Commitments made and outstanding for Loans, Investments and Fixed Assets.

Basis of amortization of debt securities.

Claims settled and remaining unpaid for a period of more than six months as on the Statement of Financial Position date.

Operating expenses relating to insurance business: basis of allocation of expenditure to various segments of business.

Explanation of the annual remuneration of the company's management staff.

Historical costs of those investments valued on fair value basis.

Basis of revaluation of investment property.

4.2.8 The other information that the Authority may require to be disclosed includes:

Investments made in accordance with any statutory requirement should be disclosed separately together with its amount, nature, security and any special rights in and outside Lao PDR;

Segregation into performing/ non performing investments for purpose of income recognition as per the directions, if any, issued by the Authority;

(c) Assets to the extent required to be deposited under local laws or otherwise encumbered in or outside Lao PDR;

(d) Percentage of business sector-wise;

(e) A summary of financial statements for the last three years, in the manner as may be prescribed by the Authority; and

(f) Any early warning indicator and / or accounting ratios as may be prescribed by the Authority.

4.3.- Audit Report

An Audit Report that meets the standards determined by the Accounting Law, Accounting Council and completed by an auditor approved by the authority must accompany the Audited Financial Statements that are submitted to the authority.

4. 4. Actuarial Report.

4.4.1 The actuarial report (an actuarial report is compulsory for life insurers and it shall be at the discretion of the authority for non-life insurance company's) and must accompany the Annual Returns submitted to the Authority based on the Audited Financial Statements.

4. 4.1.1 The actuarial report is shall contain the following minimum content:

The name and signatory of the actuary who completed the report

The scope and purpose of the report

The Liability Valuation Report which shall include; summary of the insurers products and the amounts of business in each showing new and in force and regular and single premium separately, a description and a summary of the data used in the report, description of the valuation method used, description and comments on the assumptions used, the results of the liability valuation conducted on each product group and the investment fund and include comments on any limitations that may have been encountered during the valuation process.

Study on actual development of key assumptions versus assumptions in product pricing.

Provide an assessment of the company's solvency position as at balance date, include an assessment of the company's ability to meet the solvency requirements over the next three years and provide an assessment on the company's current and future needs for capital and the potential availability of that capital.

5. Grossing up of assets and liabilities and of revenues and expenses, refer to Article 96 in Insurance Law on Financial Income and Expenditure

5.1 Balances relating to outwards reinsurance ceded by an insurer shall not be offset against balances relating to business written by the insurer, but shall constitute separate balances to be disclosed in the Statement of Financial Position , Statement of Comprehensive Income, Statement of Cash Flows or other statement or notes to the accounts.

5.2 Reinsurance taken into account in determining the amount of policyholder liabilities shall also be separately determined, and the value of policyholder liabilities excluding the effect of reinsurance and the value net of reinsurance shall be separately disclosed.

5.3 Amounts due and receivable and payable between a reinsurer and a cedent may be offset and recognized net in the regulatory returns and the audited financial statements, under the circumstance only that there is a clear legal right of offset of the amounts.

6. Premiums

6.1 Premiums shall be recognized as revenue when due and receivable from the policyholders,

6.2 Unpaid premiums can be recognized as revenue only:

6.2.1 During days of grace as specified in the policy; or

6.2.2 Where the actuarial valuation assumes that all premiums due have been received.

6.3. Where premiums due are recognized, all expenses which would fall due if the premiums had been received will be recognized as such.

6.4. Reinsurance premiums accepted where the reinsurance contract is on a proportional basis or where the term of the reinsurance contract is directly referable to the term of the underlying policy or policies shall be recognized as revenue in accordance with sub -clauses (1) and (2).

6.5. Reinsurance premiums accepted where the reinsurance contract is on a non-proportional basis and the term of the reinsurance contract is not directly referable to the term of any underlying policy or policies shall be brought to account as revenue in accordance with the pattern of reinsurance service.

6.6. Premiums accepted under a coinsurance or pool arrangement shall be considered to be revenue of the participating insurers each for their own share only, unless a contract of reinsurance exists under which an insurer has primary liability for the whole of the business and reinsures it to another or others.

7. Claims

7.1 A liability for outstanding claims shall be recognized in respect of all claims incurred to balance date. Where such claims are contractually payable over a period exceeding twelve months from the Statement of Financial Position date, then such claims should be stated at values determined by the Appointed Actuary using bases consistent with those used in the determination of policyholder liabilities

7.2 A claim shall be considered to be incurred at the time of the incident giving rise to the claim, except as otherwise expressly indicated in a contract of insurance.

7.3 The claims liability must include amounts in relation to unpaid reported claims, claims incurred but not reported, and expected claims settlement costs. The value at which claims incurred but not reported are stated in the financial statements shall be determined by the Appointed Actuary.

8.- Reinsurance expense

8.1 Premium ceded to reinsurers must be recognized as a liability as follows:

8.1.1 For reinsurance contracts operating on a proportional basis, or for which the term of the reinsurance contract is directly referable to the term of the underlying policy or policies, at the same point at which the premium of the underlying policy or policies is recognized as revenue.

8.1.2 For reinsurance contracts operating on a non-proportional basis, and for which the term of the reinsurance contract is not directly referable to the term of any underlying policy or policies, on inception of the reinsurance contract.

8.2 Over the period of reinsurance from inception to expiry, reinsurance premium shall be recognized as an expense as follows:

8.2.1 For reinsurance contracts of a type described in sub-clause 8.1.1, in full, at the same point at which the liability in respect of the reinsurance premium ceded is recognized.

8.2.2 For contracts of a type described in sub-clause 8.2.2, according to the pattern of reinsurance service.

8.3 The portion of reinsurance premium not yet recognized as an expense shall be recognized as a prepayment.

9. Claims recoveries

9.1. Claims recoveries receivable from reinsurers and other recoveries receivable shall be recognized as assets.

9.2. Claims recoveries receivable from reinsurers and other recoveries receivable shall be recognized at the same time as the claims which give rise to the right to the recovery are recognized.

10. Reinsurance Profit Commission

10.1 Reinsurance profit commission should be recognized as an asset where such commission has contractually fallen due. Where the commission has not fallen due, any amount accrued may still be recognized as an asset, being calculated as if the contractual period for its determination ended

on the Statement of Financial Position date. Where such accrual is significant the basis followed and the amount accrued should be disclosed in a note to the accounts.

11.-Expenses

11.1 Commissions and other expenses shall be recognized as expenses in the earlier of the financial year in which they are paid and the financial year in which they become due and payable, except that commissions and other expenses which are directly referable to the acquisition or renewal of specific contracts shall be recognized not later than the period in which the premium to which they refer is recognized as revenue, unless the Authority approves otherwise.

11.2 All expenses shall be apportioned equitably to the non-par and par funds that are within the investment funds of the insurance company. In determining equitable apportionment, regard shall be had to circumstances in which charges are made by one fund for the use of assets or facilities owned by that fund but used by another.

11.3 No expenses shall be deferred to subsequent financial years other than as permitted by the Lao PDR Accounting Council Standards.

12.- Appropriation of profit by par and non-par funds from investment funds

12.1 An appropriation of profit from the investment fund shall be recorded as an appropriation in the revenue account of that investment fund in the financial period in which it is made, and shall not be recorded as an expense.

12.2. An appropriation of profit from the investment fund shall be recorded as revenue of the par fund or non-par fund in the financial period in which it is made.

12.3. A proposed appropriation of profit shall not be recorded as a liability of the investment fund, or as an asset of any non-par or par funds.

13. Shareholder interests in statutory funds (life insurers only)

13.1. The par fund shall not recognize as an asset any interest in, entitlement to the assets of or capital transfer provided to the investment fund.

13.2. A capital transfer provided to investment fund by the par fund shall be recorded as a debit balance in shareholders' equity, clearly identified as capital contributed to investment fund,

13.3 No investment fund shall recognize as a liability any amount due to the par fund consisting of a capital transfer received from shareholder's, or retained profits attributable to shareholders, or any loan or advance, other than a current liability consisting of amounts due to the shareholder's fund on account of expenses due to be reimbursed to the par fund.

13.4. An amount of up to 25% of the unappropriated surplus (i.e. any surplus that has not previously been appropriated) within the par account may transferred to the non-par fund

14. Equity and policyholder funds (life insurers)

14.1. Equity is the amount that represents the residue of assets left after deducting all liabilities in the Statement of Financial Position .The investment fund in the statutory accounts shall be disclosed with separate disclosure for the par and non-par funds.

14.2 The following components of par and non-par funds shall be separately disclosed:

- (a) Policyholder liabilities (inclusive of bonuses allocated);
- (b) Retained earnings attributable to policy holders;
- (c) Retained earnings arising from participating business, attributable to shareholders but not available for distribution;
- (d) Retained earnings arising from business other than participating business, attributable to shareholders;

- (e) Surplus not yet allocated;
- (f) Shareholders' capital in the investment fund; and
- (g) Such reserves, whether or not prescribed, as may be established by the investment fund.

14.3. The Notes to the financial statements shall include disclosure of movements in each of the accounts set out in sub-clause (2).

14.4. Where financial statements are made up to a date as at which a valuation of policyholder liabilities is carried out by the company's appointed actuary, the amount of policyholder liabilities recorded in the financial statements shall be the amount of policyholder liabilities certified by the appointed actuary.

14.5. The financial statements shall show the allocation of surplus, if any, in the financial year required.

14.6. Policyholder liabilities shall not include any bonuses proposed to be allocated to participating policies, unless before the balance date those amounts have been so allocated.

15. Investments and Investment Properties

15.1 For the purpose of all statements prepared under these regulations:

(a) Available for sale investments shall be stated to meet the published requirements of the Accounting Council.

(b) The market value of properties held for long term, shall be determined at least once every five years on a rolling basis in every financial year and disclosed,

15.2. The appointed actuary may, in the determination of policyholder liabilities, take into account the value placed on investments under these regulations, and adjust the net asset value used to determine policyholder liabilities to reflect the values being placed on investments under these regulations.

16. Admissibility of Assets

The value of assets for the purposes of the Statement of Financial Position shall be in accordance with the Accounting Council's published standards and the insurance company's accounting policies for such assets and any method of assigning values to investments provided for in these regulations.



ACCIDENT INSURANCE

Guideline 9: Regulations on Corporate Governance for Licensed Insurers

These regulations have been drafted by consultant for the purposes of

- A review by MOF.
- The distribution of the regulation to insurance stakeholders to obtain feedback from insurance stakeholders on the regulation.
- Finalize the regulation after reviewing the feedback to submit to the Minister of Finance.

1. Short Title and Commencement

These regulations shall be called the corporate governance for licensed insurers regulations;

These regulations shall come into force on the date of their publication in the [

2. Definitions and Interpretations

2.1 In these regulations, unless the context otherwise requires, -

2.1.1 "Act" means the Insurance Law 21 November 2011;

2.1.2 "Authority" means the Insurance Regulator the relevant department in The Ministry of Finance (MOF)

2.1.3 "Designated person" means a responsible person in the Insurance Regulators office who has been delegated authority to make decisions on corporate governance matters for an insurance company.

2.1.4 "Independent Director" means a person who is a non-executive director, who is free from a business or other association with the insurer that could interfere with the exercise of independent judgment. An independent director will not have a substantial shareholding in the insurer, any involvement in past management of the company or be a supplier or advisor.

2.1.5 "Non-executive director" means a director who is not part of the management team.

2.1.6 "owner" means a person who directly or indirectly owns or controls at least ten percent (10%) of capital of the insurer

3. Scope and Purposes of this regulation

3.1 This regulation shall apply to all licensed insurers and organizations providing insurance services.

3.2 The purposes of this regulation are:

3.2.1 To establish requirements for corporate governance to develop the long term sustainability of all insurers; and

3.2.2 To establish requirements for the conduct of all directors of insurers.

3.3. The objectives of this regulation include;

3.3.1 To set minimum standards of governance for insurers in Lao PDR

3.3.2 To promote corporate self-discipline in the management of insurers

3.3.3 To ensure insurers are managed by a competent board of directors (referred to as the board from here on), in a sound and prudent manner

3.3.4 To ensure that the board makes reasonable and impartial judgments in the best interests of the insurer taking into consideration their impact on policy holders.

3.3.5 This regulation is issued on the basis that;

(a) through the board insurers adhere to corporate governance principles in managing their business; and

(b) a key aspect in the supervision of insurers shall involve an evaluation of the corporate governance framework

4. Provisions

4.1 Rights and responsibilities of shareholders', A shareholder may:

4.1.1 Participate in decisions concerning fundamental corporate changes including

(a) Amendments to articles and memorandum of association or similar governing documents of the insurer; and

(b) Authorization of additional shares and extraordinary transactions, leading to the sale of the insurer.

4.1.2 Vote in a general meeting.

4.1.3 Access information concerning rules and voting procedures governing a general meeting including sufficient information concerning the date, location and agenda.

4.1.4. Ask the board any question and enquire about the annual external audit.

4.1.5 Place an item on the agenda of a general meeting

4.1.6. Propose a resolution subject to reasonable limitations; and

4.1.7 Vote in person or by proxy.

5. A shareholder shall;

5.1.1. Jointly and severally protect, preserve and actively exercise authority in the annual general meeting.

5.1.2. Foster constructive relationships with the board to create the sustainability of the insurer.

5.1.3 Ensure only competent people are appointed to the board.

5.1.4 Ensure the board is constantly held accountable and responsible for the efficient and effective governance of the insurer.

5.1.5. Change the composition of the board where the board is considered incompetent.

5.1.6 To vote on the recommended remuneration of the directors.

5.1.7 Maintain competitive remuneration packages that attract and maintain competent directors and management

5.1.8 Respect the fiduciary duties of board members.

5.1.9 Ensure the procedures for general meetings allow equitable treatment of shareholders.

5.1.10. Comply with all relevant laws and regulations

5.1.11 Ensure protection of minority shareholders from abusive actions of controlling shareholders

6. The Board

6.1 Every insurers Board will have a minimum of 5 directors. Independent directors will make up the majority of board. Except

6.1.1 Where a single substantial shareholder holds 50% or more of the share capital. The voting power the Board will be represented by directors who are independent from management and business relationships with at least one-third of directors being independent directors.

6.2. If a member of the Board of an insurer resigns or ceases to be a member of the Board for any other reason, the insurer shall notify the Authority of the event within 14 days after the occurrence of

the event and on or before its next annual general meeting, appoint such number of new directors as may be required to rectify the composition of the Board in accordance with the requirements of the insurer's constitution. or

6.2.1 The Authority may, upon being notified direct the insurer to rectify the composition of the Board in accordance with the insurer's constitution requirements within such time before the next annual

general

meeting of the insurer, subject to such conditions or restrictions as the Authority may specify, and the insurer shall comply with that direction.

6.3. The Board shall maintain records of all its meetings

7. Separation of roles

7.1. An insurer shall not appoint any of the following persons as the chairman of its Board:

(i) any of its executive directors;

(ii) any person who is a member of the immediate family of the principal officer of the insurer.

8. Committees of Board

8.1. Each board of the insurer shall set up sub-committees who will have at least 3 members on each committee. There will be a minimum of 5 sub committees required to ensure the effective governance of the insurer.

8.1.1. Nominating Committee;

Primary role of the nominating committee is to identify potential candidates and review all nominations for the appointment of the following persons

each director;

each member of the board committees;

the principal officer (CEO) ;

the deputy principal officer;

any actuary appointed with the approval of the Authority;

the chief financial officer; and

the chief risk officer.

8.1.2. Remuneration Committee:

8.1.2.1 Primary role is to recommend a framework for determining the remuneration of the directors of the insurer, recommend a framework for determining the remuneration of the executive officers of the insurer which shall include the following elements and factors in the design and operation of the framework.

The remuneration package of each executive officer of the insurer shall be aligned to the specific job function undertaken by the executive officer and, where the executive officer undertakes any of the insurer's control job functions, the remuneration package of that executive officer shall be determined independently of the business functions of the insurer;

The directors shall take into account input from the insurer's control job functions that are relevant to the specific job function undertaken by the executive officer which shall be aligned with the risks that the insurer undertakes in its business that is relevant to the specific job function undertaken by the executive officer;

When setting remuneration the directors shall be sensitive to the time horizon of risks that the insurer is exposed to, which includes ensuring that variable compensation payments shall not be finalized over short periods of time when risks are realized over long periods of time;

The directors shall advise the authority of any proposed bonuses to senior staff. The directors shall detail how the bonus payment has been calculated and in relation to the quantum of bonus payable to the executive officer, be linked to personal performance, the performance of the specific job function as a whole and the overall performance of the insurer;

The bonus shall, in relation to the rationale for the mix of cash, equity and other forms of incentives, be justified; and the size of the bonus pool of the insurer shall be linked to the overall performance of the insurer;

8.1.2.2 The committee will recommend the remuneration for each director and executive officer of the insurer based on the frameworks referred to in above paragraphs.

8.1.2.3 The committee will review the remuneration practices of the company, at least once in each year. This review of the remuneration practices of the insurer will ensure that their policies competitive and in line with the performance and financial position of the insurer.

8.1.3. Audit Committee:

8.1.3.1 The Audit Committee shall, in addition to such other responsibilities as may be determined by the Board or provided under written law, be responsible for the adequacy of the external and internal audit functions of the insurer, including reviewing the scope and results of audits carried out in respect of the operations of the insurer and the independence and objectivity of the insurer's external auditors.

8.1.3.2. Specific responsibilities of the committee include:

appointment of external auditor;

review the performance of the external auditor;

confirm the remuneration of the external auditor;

review the audit reports and managements responses to the reports;

appoint internal auditor;

review the internal audit reports;

review management's response to the internal audit reports;

approve the accounting, tax and actuarial policies used in the financial accounts;

review the quarterly and annual financial accounts of the insurer; and

be satisfied that management has accurately represented all aspects of the insurers business in the financial accounts.

8.1.4. Risk Management Committee

8.1.4.1 The Risk Management Committee shall, in addition to such other responsibilities as may be determined by the Board, be responsible for overseeing :

the establishment and operation of an independent risk management system for managing risks on an enterprise wide-basis; and

the adequacy of the risk management function, including sufficient staff resources to monitor the insurers risk categories and ensure that appropriate independent reports lines are set up and functioning.

8.1.5. Asset and liability Committee

8.1.5.1 The asset and liability committee's main role is to manage the assets and liabilities of the insurer in a manner that will ensure that the investment activities of the insurer and asset position are appropriate to the liabilities and risk profile of the insurer.

8.1.5.2 The committee shall develop a written charter that is approved by the board on an annual basis.

8.1.5.3 The committee will report to the board on its activities and the current state of its assets and liabilities on a quarterly basis.

8.1.5.4 The committee will comprise 3 directors and two (2) members of management including the head of finance.

9. Approval of Authority

9.1 An insurer shall obtain the prior approval of the Authority for the appointment of the following persons:

the members of the Nominating Committee;

the chief executive officer;

the chief financial officer; and

the chief risk officer.

9.2. Without prejudice to any other matter that the Authority may consider relevant, the Authority shall, in determining whether to grant its approval have regard to whether the person is a fit and proper person to hold the office.



**TRAVEL INSURANCE
PASSENGER PROTECTION**

Guideline 10: Regulations on Product Approval for Licensed Insurers

These regulations have been drafted by consultant for the purposes of

- A review by MOF.
- The distribution of the regulation to insurance stakeholders to obtain feedback from insurance stakeholders on the regulation.
- Finalize the regulation after reviewing the feedback to submit to the Minister of Finance.

1. Short Title and Commencement

- 1.1. These regulations shall be called the product approval for licensed insurers regulations;
- 1.2. These regulations shall come into force on the date of their publication in the [

2. Definitions and Interpretations

- 2.1 In these regulations, unless the context otherwise requires, -
 - 2.1.1 "Act" means the Insurance Law 21 November 2011;
 - 2.1.2 "Authority" means the Insurance Regulator, the relevant department in The Ministry of Finance (MOF)
 - 2.1.3 "Designated person" means a responsible person in the Insurance Regulator's office who has been delegated authority to make decisions on products for insurers.
 - 2.1.4 "product" means the form of a policy or contract, including any application, endorsement, or related form which is attached to and made a part of the policy or contract, and any evidence of coverage or certificate, for an individual or group product (being life or non-life) that a licensed Insurer is authorized to issue. Article 10 and 12 in the Insurance law list the products for non-life and life insurance. The law stipulates that additional categories of insurance can be determined on the basis of the approval of the Insurance Regulator if necessary.
 - 2.1.5 "Advertising" means any material designed to create public interest in a product, or induce the public to purchase, increase, modify, reinstate, borrow on, surrender, replace or retain a policy.

3. Scope and Purposes of this regulation

- 3.1 This regulation shall apply to all licensed insurers and organizations providing insurance services.
- 3.2 The purposes of this regulation are:
 - 3.2.1 To establish requirements for products that are sold by insurers. and
 - 3.2.2 To establish requirements for the conduct of all insurers issuing products.
- 3.3 Objectives of regulation
 - 3.3.1. To promote and protect the interest of consumers of individual and group insurance products.
 - 3.3.2 To develop uniform standards for insurance products.
 - 3.3.3 To establish a division within the Regulator to receive and provide prompt review and decision on new insurance products and, in certain cases product advertisements submitted by insurers authorized to do business in Lao PDR.
 - 3.3.4. To give appropriate Regulatory approval to those product filings and advertisements satisfying the applicable uniform standard.

4. Provisions

- 4.1. Product approvals: All new products are to be approved by the Authority before the product can be advertised or sold. Advertisements for the products are considered part of the product and require the authority's approval of the advertisement before the advertisement goes public.

4.2 The Authority will receive and review in an expeditious manner new Products filed by insurers. The Authority will give approval or the reasons for declining the product application within 30 days from date of submission.

4.3 The Authority will receive and review in an expeditious manner all advertisements related to insurance products (either new products or existing products) and give approval or reasons for declining the application to advertise within a period of 15 days from the date of submission.

4.4 All requests for new products must include an independent actuary review of the product.

4.5 The authority will issue guidelines on the criteria it will use to assess new insurance products. All insurers will require the authority's approval for each product before they can market the product in Lao PDR.

4.5.1. The criteria will be guided by the following principles:

- The risk the product covers is clearly described and easy to understand;
- The company proposing the product has the financial and management capability to manage the risk of the product;
- The benefits from the product are clearly described and easy to understand for the consumer;
- The amount and frequency of premiums to cover the particular level of risk the consumer wants covered is clear and fair;
- The product's exclusion clauses are clearly set out;
- The process of managing the risk of the product is clearly described (i.e. amount of retention, reinsurance program etc.); and
- The proposed methods of selling the product are within acceptable market practice.

Guideline 11: Regulations on Insurance Agents

These regulations have been drafted by consultant for the purposes of

- A review by MOF.
- The distribution of the regulation to insurance stakeholders to obtain feedback from insurance stakeholders on the regulation.
- Finalize the regulation after reviewing the feedback, to submit to the Minister of Finance.

1. Short Title and Commencement

- 1.1. These regulations shall be called the insurance agents regulations;
- 1.2. These regulations shall come into force on the date of their publication in the [

2. Definitions and Interpretations

2.1 In these regulations, unless the context otherwise requires, -

2.1.1 "Act" means the Insurance Law 21 November 2011;

2.1.2 "Authority" means the Insurance Regulator, the relevant department in The Ministry of Finance (MOF)

2.1.3 "Designated person" means a responsible person in the Insurance Regulators office who has been delegated authority to make decisions on insurance agents.

2.1.4 "Insurance agent" as defined in the Insurance Law Article 76 "means an organization or individual authorized by an insurer on the basis of a contract of insurance agency to conduct insurance agency activities in accordance with the provisions of this law and the provisions of other relevant laws. The insurer shall submit a list of its insurance agents to the Ministry of Finance."

2.1.5 "Corporate Agent" means a person other than an individual as specified in definition

2.1.4. This will also include bank assurance agents.

2.1.6 "Examination Body" means an Institution, which conducts pre-recruitment tests for insurance agents which is duly recognized by the Authority;

2.1.7 "License" means a certificate of license to act as an insurance agent or a broker issued under these regulations;

2.1.8 "Person" means ---

(i) an individual;

(ii) a partnership; or

(iii) a public liability company formed in line with Lao PDR's Law and Regulations for commercial enterprises;

2.1.9 "Practical Training" includes orientation, particularly in the area of insurance sales, service and marketing, through training modules as approved by the Insurance Regulator;

2.1.10 "Proposal form" means an application for the purchase of an insurance product which shall be the basis of an insurance contract;

2.1.11 "Prospect" means a potential purchaser of an insurance product;

2.1.12 All words and expressions used herein and not defined but defined in the Insurance Act, 21 November 2011, shall have the meanings respectively assigned to them in that Law.

3. Scope and Purposes of this regulation

3.1 This regulation shall apply to all licensed insurers and organizations providing insurance services.

3.2 The purposes of this regulation are:

3.2.1 To establish requirements for people to become licensed agents to sell products for insurers, and

3.2.2 To establish requirements for the conduct of all agents and insurers issuing insurance products.

4. Provisions

4.1 Issue or renewal of license.

4.1.1. A person desiring to obtain or renew a license (hereinafter referred to as "the applicant") to act as an insurance agent, shall proceed as follows (note; a new or renewed Insurance Agents license will be for a period of two (2) years):-Refer to Licensing regulation article 4 on the requirement for an agent to have an identification card issued by the Insurance Regulator.

4.1.2. The insurance company shall make an application on behalf of the applicant who will represent the insurance company to prospects to a designated person in the Authority. The Authority shall advise from time to time on the format of the application form. --

4.1.3. The fees payable by the applicant to the Authority shall be as specified in the Ministerial Guidelines on licensing.

4.1.4. The designated person may, on receipt of the application along with the evidence of the payment of fees to the Authority will evaluate the applicant alongside the minimum standards set out in Article 77 of the Insurance Law which ensure that:.. The individuals qualify on the following criteria:

- Be a Lao citizen permanently residing in Lao PDR;
- Be 18 years of age or more with full capacity for civil acts;
- Have a certificate of training as insurance agent issued by an insurer;
- Have never been imprisoned as the consequence of intentional actions; and
- Be in good health.

4.1.4.1 For an organization's application to be considered it must :

- Be a legally established and operating organization under the relevant Commercial and Business Laws of Lao PDR

4.1.5 In addition to these minimum tests the designated member of the authority will need to be satisfied that the applicant; ---

- (i) possesses the qualifications as specified in clause 4.3.1 and 4.3.2 or any amendments made to this clause from time to time by the Authority;
- (ii) possesses the practical training required for an agent as specified in clause 4.4.1 and 4.4.2 or any amendments made to this clause from time to time by the Authority.
- (iii) has passed the required entrance examination as specified in clause 8 or any amendments made to this clause from time to time by the Authority;
- (iv) has furnished the application that is complete in all respects;
- (v) has the requisite knowledge to solicit and procure insurance business; and
- (vi) is capable of providing the necessary service to the policyholders;

4.2 Approval of agent

4.2.1 The authority shall complete the approval process for a license for an agent within 21 days of receiving all documentation in an appropriate form that is required to support a license application.

4.2.2 In the case of an application from a partnership or a company, all of its partners or directors, as the case may be, shall fulfil the requirements of sub-clause 4.3.1.

4.2.3 When a license has been issued in accordance with this regulation it shall entitle the applicant to act as insurance agent for either one life insurer or one nonlife insurer.

4.2.4 No application for renewal of registration shall be rejected by the designated person unless he has given notice in writing to the applicant to show cause within such period as may be specified in such notice as to why such application should not be rejected and such applicant-

- (a) fails to show cause, or
- (b) does not show sufficient cause, within such a period

4.2.5 If the designated person refuses to grant or renew a license under this regulation, he shall give the reasons therefor to the applicant.

4.3. Qualifications of the applicant:

4.3.1 The applicant shall possess the minimum qualification of a High School leaving certificate or equivalent examination conducted by any recognized Board/Institution.

4.3.2 The applicant to be an agent or an employee within a Bank assurance organization selling life insurance or nonlife insurance to work in a broking firm involved with the sale of products shall be a minimum of eighteen years old.

4.4. Practical Training

4.4.1. The applicant will complete from an approved institution, at least, forty hours' practical training in life or general insurance business, as the case may be, which may be spread over three to four weeks, where such applicant is seeking license for the first time to act as an insurance agent.

4.4.2. An applicant, who has been granted a license after the commencement of these regulations, before seeking renewal of license to act as an insurance agent shall have completed, at least twenty-five hours' practical training in life or general insurance business, as the case may be, from an approved institution in the preceding twelve month period.

4.5. Examination.

4.5.1 The Applicant shall have passed the pre-recruitment examination in life or general insurance business, as the case may be, conducted by the Authority, or any other examination body designated by the Authority.

4.6. Fees payable.

4.6.1 An annual renewal fee is to be paid by all licensed agents. The insurance company the agent represents is free to pay the renewal fee to the authority on behalf of all of its agents. The fee payable is detailed in Article 7 "licensing fees" in the Ministerial Guidelines on Licensing.

4.7. Code of Conduct.

4.7.1 Article 78 "Rights and Obligations of an Insurance Agent" of the Insurance Law summarizes the basic requirements that an agent is expected to meet. To develop a market that provides protection for the consumer every person holding a license to act as an insurance agent shall adhere to the code of conduct specified below:-

4.7.2 Every insurance agent (note this code applies to a corporate agent also) shall:

- (a) identify himself / herself and the insurance company of whom he is an insurance agent;
- (b) disclose his/ her license to the prospect on demand;
- (c) disseminate the requisite information in respect of insurance products offered for sale by his insurer and take into account the needs of the prospect while recommending a specific insurance plan;
- (d) disclose the scales of commission in respect of the insurance product offered for sale, if asked by the prospect;
- (e) indicate the premium to be charged by the insurer for the insurance product offered for sale;
- (f) if the situation requires the agent to collect the premium in cash or a cheque then it must be immediately deposited into to the insurance company's account or sent quickly to the insurer in order to effect cover for the client;
- (g) explain to the prospect the nature of information required in the proposal form by the insurer, and also the importance of disclosure of material information in the purchase of an insurance contract;
- (h) bring to the notice of the insurer any adverse habits or income inconsistency of the prospect, in the form of a report (called "Insurance Agent's Confidential Report") along with every proposal submitted to the insurer, and any material fact that may adversely affect the underwriting decision of the insurer as regards acceptance of the proposal, by making all reasonable enquiries about the prospect;
- (i) promptly inform the prospect about the acceptance or rejection of the proposal by the insurer;
- (j) obtain the requisite documents at the time of filing the proposal form with the insurer; and other documents subsequently asked for by the insurer for completion of the proposal;
- (k) render necessary assistance to the policyholders or claimants or beneficiaries in complying with the requirements for settlement of claims by the insurer;

- (l) advise every individual policyholder to effect nomination or assignment or change of address or exercise of options, as the case may be, and offer necessary assistance in this behalf, wherever necessary;

4.7.3 No insurance agent (note this code applies to a corporate agent, an independent agent and a bank assurance employee) shall:---

- (a) solicit or procure insurance business without holding a valid license;
- (b) induce the prospect to omit any material information in the proposal form;
- (c) induce the prospect to submit wrong information in the proposal form or documents submitted to the insurer for acceptance of the proposal;
- (d) behave in a discourteous manner with the prospect;
- (e) interfere with any proposal introduced by any other insurance agent;
- (f) offer different rates, advantages, terms and conditions other than those offered by his insurer;
- (g) demand or receive a share of proceeds from the beneficiary under an insurance contract;
- (h) force a policyholder to terminate the existing policy and to effect a new proposal from him within three years from the date of such termination;
- (i) apply for fresh license to act as an insurance agent, if his license was earlier cancelled by the designated person, and a period of five years has not elapsed from the date of such cancellation; and
- (j) become or remain a director of any insurance company.

4.7.4 Every insurance agent shall, with a view to conserve the insurance business already procured through him, make every attempt to ensure remittance of the premiums by the policyholders within the stipulated time, by giving notice to the policyholder orally and in writing.

4.8. Cancellation of license.

4.8.1 In addition to the clauses detailed in article 12 "termination of license" in the Ministerial guidelines on licensing the following clauses can give the authority reason to cancel an agents license.

4.8.2 The designated person may cancel a license of an insurance agent, if the insurance agent suffers, at any time during the currency of the license, from any of the following reasons for disqualification: (a criminal conviction for fraud or dishonesty, a conviction in the courts that results in a term of imprisonment, being a director of a company that is liquidated and becoming a bankrupt).

4.8.3. In addition the designated person may cancel a license for an insurance agent for any of the following situations:

- if the agent has been found or declared to be of unsound mind by a court of a competent jurisdiction;
- if the agent persists in disobeying the instructions of the Authority;
- if the agent becomes a director of the company;
- if the agent does not in the opinion of the designated person have sufficient knowledge, skill or experience to satisfactorily discharge the agent or broker duties and functions;
- if the agent has been found guilty of or warned or cautioned in writing by the designated person on at least three separate occasions ; and
- If the agent has made any statement in any application, account or written information that is in any manner false or misleading.

4.9. Annual Financial Statements.

4.9.1 Insurance agents and Insurance companies that employ agents will submit any relevant financial reports that may be requested from time to time by the Authority.

4.10. Other reporting.

4.10.1 Every insurer shall maintain a register in which contains: the name and address of every insurance agent appointed, the date of such appointment and the date, if any on which the appointment was terminated should be given. This register shall be available for checking at any time by the designated person. Article 79 of the Insurance Law sets out the minimum requirements for Insurance company's reporting on their agents.

4.11. Payment of commissions.

4.11.1 No person shall offer either directly or indirectly as an inducement to any person to take out or renew or continue a contract of insurance any rebate of the whole or part of any brokerage commission or premium (except such rebate as may be allowed in accordance with a published prospectus or manual or schedule of rates of an insurer) which will have the effect of circumventing the maximum and minimum rates of any premia fixed under the Insurance Law.

4.11.2 No insurer shall pay to an insurance agent as brokerage, commission, fees or any other remuneration, any sum in excess of the amounts prescribed for or in respect of each prescribed class of insurance business placed by that agent with that insurer.



**SENIORS LIFE
INSURANCE**

Guideline 12: Regulations on Insurance Brokers

These regulations have been drafted by consultant for the purposes of:

- (i) a review by MOF.
- (ii) the distribution of the regulation to insurance stakeholders to obtain feedback from insurance stakeholders on the regulation.
- (iii) Finalize the regulation after reviewing the feedback to submit to the Minister of Finance.

1. Short Title and Commencement

These regulations shall be called the insurance brokers regulations;

These regulations shall come into force on the date of their publication in the [

2. Definitions and Interpretations

2.1 In these regulations, unless the context otherwise requires, -

2.1.1 “Act” means the Insurance Law 21 November 2011;

2.1.2 “Authority” means the Insurance Regulator the relevant department in the Ministry of Finance (MOF)

2.1.3 “Designated person” means a responsible person in the Insurance Regulators office who has been delegated authority to make decisions on insurance brokers.

2.1.4 “Insurance broker” as described in the Article 81 of the Insurance Law is an individual or organization that is authorized to conduct insurance broking activities. An insurance broker that is legally established is eligible to be an insurance broker for the insurer and for the purchaser of insurance. In addition to the description in the Law a broker also provides consultations; shares information related to types of insurance, conditions and premium of insurance contract; negotiation and preparation of insurance contract between applicant and the insurer, by receiving a brokerage commission. An insurance broker may operate as a corporate broker or an individual broker. A Corporate broker will employ people to operate as brokers in the name of the Corporate. The owner /manager of the Corporate broking firm will be responsible for the conduct of its brokers that are in its employment. An individual broker will operate independently and be responsible as an individual for maintaining appropriate professional standards and conduct.

2.1.5 “Examination Body” means an Institution, which conducts pre-recruitment tests for insurance brokers which is duly recognized by the Authority;

2.1.6 “License” means a certificate of license to act as a broker issued under these regulations;

2.1.7 All words and expressions used herein and not defined but defined in the Insurance Law, 21 November 2011, shall have the meanings respectively assigned to them in that Law.

3. Scope and Purposes of this regulation

3.1 This regulation shall apply to all licensed insurers and broker organizations providing insurance services.

3.2 The purposes of this regulation are:

3.2.1 To establish requirements for organizations to become licensed brokers to sell products on behalf of licensed insurance companies in Lao PDR and

3.2.2 To establish requirements for the conduct of all brokers and insurers issuing insurance products.

4. Provisions

4.1 Issue or renewal of license.

4.1. A person desiring to obtain or renew a license (hereinafter referred to as "the applicant") to act as an insurance broker shall proceed as follows (note; a new or renewed Brokers license will be for a period of one (1) year).-

4.2 The authority shall complete the approval process for a broker's license for a broker within 45 days of receiving all documentation in an appropriate form that is required to support a license application.

4.3. An application for renewal of registration as an insurance broker shall be submitted to the Authority at least 30 days before the expiry of the license and shall be accompanied by:

4.3.1. A professional indemnity policy of insurance for the ensuing period in such form and for such amount as may be specified by the Authority; and

4.3.2 A statement of business transacted in the preceding financial year;

4.4 No application for renewal of registration shall be rejected by the designated person unless he has given notice in writing to the applicant to show cause within such period as may be specified in such notice as to why such application should not be rejected and such applicant-

4.4.1 Fails to show cause, or

4.4.2 Does not show sufficient cause, within such period

4.5 If the designated person refuses to grant or renew a license under this regulation, he shall give the reasons therefor to the applicant.

5. Practical Training

5.1 The applicant shall have completed from an approved institution, at least, forty hours' practical training in life or general insurance business, as the case may be, which may be spread over three to four weeks, where such applicant is seeking license for the first time to act as insurance broker.

5.2 Provided that the applicant shall have completed from an approved institution, at least, sixty hours' practical training in life and general insurance business, which may be spread over six to eight weeks, where such applicant is seeking license for the first time to act as a composite insurance broker.

5.3 An applicant, who has been granted a license after the commencement of these regulations, before seeking renewal of license to act as an insurance broker, shall have completed, at least twenty-five hours' practical training in life or general insurance business, as the case may be, from an approved institution in the preceding twelve month period.

5.4 Provided that such applicant before seeking renewal of license to act as a composite insurance broker shall have completed from an approved institution, at least, fifty hours' practical training in life and general insurance business.

6. Fees payable.

6.1 An annual renewal fee is to be paid by all licensed brokers. The fee payable is detailed in Article 7 "licensing fees" in the Ministerial Guidelines on Licensing.

7. Code of conduct

7.1 Every broker shall:---

- conduct its dealings with clients with utmost good faith and integrity at all times and act with care and diligence;
- ensure that the client understands his relationship with the broker and on whose behalf the broker is acting;

- treat all information supplied by the prospective clients as completely confidential to themselves and to the insurer(s) to which the business is being offered;
- hold specific authority from the client to develop terms of the insurance contract;
- understand the type of client it is dealing with and the extent of the client's awareness of risk and insurance;
- obtain written mandate from client to represent the client to the insurer and communicate the grant of a cover to the client after effecting insurance;
- ensure that the policy proposed is suitable to the needs of the prospective client;
- explain why a policy or policies are proposed and provide comparisons in terms of price, explain the procedures to follow in the event of a loss.
- explain all the essential provisions of the cover afforded by the policy recommended by him so that, as far as possible, the prospective client understands what is being purchased;
- quote terms exactly as provided by insurer;
- provide the client with prompt written confirmation that insurance has been effected. If the final policy wording is not included with this confirmation, the same shall be forwarded as soon as possible;
- ensure that the client receives the insurer's renewal invitation well in time before the expiry date.
- explain to its clients their obligation to notify claims promptly and to disclose all material facts and advise subsequent developments as soon as possible;
- request the client to make true, fair and complete disclosure where it believes that the client has not done so. If further disclosure is not forthcoming it shall consider declining to act further for the client;
- give prompt advice to the client of any requirements concerning the claim;
- have in place a system for recording and monitoring complaints
- ensure that any documents issued comply with all statutory or regulatory requirements;
- acknowledge receipt of all monies received in connection with an insurance policy and deposit to their specific Insurance Broking Account ;
- ensure that all of the staff working for the broker are aware of and adhere to the standards expected of them by this code;
- ensure that staff are competent, suitable and have been given adequate training;
- ensure that there is a system in place to monitor the quality of advice given by its staff; and
- ensure that members of staff are aware of legal requirements including the law of agency affecting their activities; and only handle classes of business in which they are competent;

7.2 No insurance broker shall:

- work with clients or on transaction that will involve a conflict of interest for the broker;
- employ agents or canvassers to bring in business;
- influence the prospective client and make it clear that all the answers or statements given are the latter's -own responsibility;
- employ staff who are not trained;
- bank monies for clients into the brokers personal bank account;
- share their client details with anyone without the clients permission; and
- force a client to terminate the existing policy and to effect a new proposal from him within three years from the date of such termination;

8. Cancellation of a broker's license.

8.1. The designated person may cancel a license of an insurance broker, if the insurance broker suffers, at any time during the currency of the license, from any of the following reasons for disqualification: (a criminal conviction for fraud or dishonesty, a conviction in the courts that results in a term of imprisonment, being a director of a company that is liquidated and becoming a bankrupt).

8.2 In addition the designated person may cancel a license for an insurance broker for any of the following situations:

- If the broker has been found or declared to be of unsound mind by a court of competent jurisdiction;
- If the broker persists in disobeying the instructions of the Authority;
- If the broker becomes a director of the company;
- If the broker does not in the opinion of the designated person have sufficient knowledge, skill or experience to satisfactorily discharge the broker duties and functions;
- If the broker has been found guilty of or warned or cautioned in writing by the designated person on at least three separate occasions ; and
- If the broker has made any statement in any application, account or written information that is in any manner false or misleading.

9. Issue of duplicate license.

9.1 The Authority may issue a duplicate license replace a license lost, destroyed, or mutilated on payment a fee that is listed in the licensing regulation. .

10. Annual Financial Statements.

10.1 The insurance broker shall keep a proper record of transactions of all business transactions for the year and the revenue and expense in respect of their respective operations in an accurate manner;

10.2 Within three (3) months after the end of financial year for an insurance broker, or such further period as the Authority may approve, the licensed insurance broker shall submit audited annual Financial Report (this report shall have a balance sheet and profit and loss account) that has been inspected by a

permitted auditor who has been approved by the Authority. The annual accounts shall be based on international accounting standards, existing laws, and other relevant regulations; and

10.3 All corporate brokers shall publish their annual financial statements in the newspaper and any other sites that can be accessed by the public such as the websites.

11. Other reporting.

11.1 Every insurance broker shall submit a return to the Authority stating the names of all the insurers with whom the insurance broking organization has placed business and the percentage of the business the organization has placed. A certificate to the effect that the percentage of business so placed does not exceed fifty percent to one insurance company shall be submitted to the designated person annually and duly signed by two directors.

12. Payment of commissions.

12.1 No person shall offer either directly or indirectly as an inducement to any person to take out or renew or continue a contract of insurance any rebate of the whole or part of any brokerage commission

or premium (except such rebate as may be allowed in accordance with a published prospectus or manual or schedule of rates of an insurer) which will have the effect of circumventing the maximum and minimum rates of any premia fixed under the Law of Insurance; and

12.2 No insurer shall pay to a broker as brokerage commission, fee or other remuneration, any sum in excess of the amounts prescribed for or in respect of each prescribed class of insurance business placed by that broker with that insurer.

Guideline 13: Regulations on Actuaries

These regulations have been drafted by consultant for the purposes of

- A review by MOF.
- The distribution of the regulation to insurance stakeholders to obtain feedback from insurance stakeholders on the regulation.
- Finalize the regulation after reviewing the feedback to submit to the Minister of Finance.

1. Short Title and Commencement

These regulations shall be called the Actuary regulations;

1.2 These regulations shall come into force on the date of their publication in the [

2. Definitions and Interpretations

2.1 In these regulations, unless the context otherwise requires, -

2.1.1 "Act" means the Insurance Law 21 November 2011;

2.1.2 “*Authority*” means the Insurance Regulator the relevant department in the Ministry of Finance (MOF)

2.1.3 “*Designated person*” means a responsible person in the Insurance Regulators office who has been delegated authority to make decisions on Actuaries.

2.1.4 “*Actuary*” means a person who is a member or fellow of an institute, faculty, society or association of actuaries approved by the Authority. An actuary should have met all of the professional exams and courses necessary to be recognized as a fully qualified actuary. A certified actuary may be recognized

and approved by the authority. This is an actuary who has completed a certain level of exams and courses is a member of an actuarial society but is not yet recognized as a fully qualified actuary.

An actuary is a professional trained in evaluating the financial implications of contingent events. Actuaries require an understanding of the stochastic nature of insurance, the risks inherent in assets and the use of statistical models. These skills are often, for example, used in establishing premiums and technical provisions for insurance products, using the combination of discounted cash flows and probabilities.”

2.1.4.2 Actuarial skills are used to assess risk, determine the adequacy of premiums and establish technical provisions for both life and non-life insurance. These skills include a detailed understanding of the probabilities of insurance risks, (e.g., mortality, morbidity, claim frequencies and severities), the use of statistical models, the use of discounted cash flows, understanding and assessment of the use of derivatives and an understanding of volatility and adverse deviation. After appropriately applying these skills, actuaries provide advice and, where members of management, participate in decision-making.

2.1.4.3 A practical issue is the availability of suitably qualified and experienced actuaries in Lao PDR. One way to address such a situation may be to allow actuaries from other jurisdictions to carry out an official role, provided that the actuaries have suitable qualifications and experience relating to the jurisdiction. In such a situation, the actuaries should be available to participate in discussions with the Insurance Regulator and to be consulted effectively. In all responding jurisdictions, the requirements regarding who could be appointed as a responsible actuary are defined in the supervisory rules or legislation.

3. Scope and Purposes of this regulation

3.1 This regulation shall apply to all licensed insurers and organizations providing insurance services.

3.2 The purposes of this regulation are:

3.2.1 To establish requirements for people to become licensed Actuaries. and

3.2.2 To establish requirements for the conduct of all Actuaries operating in the Lao PDR insurance market.

4. Provisions

4.1 The criteria for the appointment of a responsible actuary.

- Qualified by specified initial and ongoing educational requirements;
- Has membership in a professional body that is approved by the authority;
- Has completed a minimum period specified by the authority of relevant practice as an actuary since qualification at that level; and
- The responsible actuary is a resident of the jurisdiction that the professional body is located in.

4.2 Process to appoint an actuary

4.2.1. For the purposes of obtaining the approval of the Authority for the appointment of an approved actuary or a certifying actuary, a licensed insurer shall submit to the Authority the particulars of the person proposed to be appointed in such form as the Authority may specify. The insurer must satisfy the Authority that the person is a fit and proper person to be so appointed and has the actuarial qualifications and experience to perform the duties and functions of an appointed actuary or a certifying actuary. When determining whether to approve the appointment of an actuary or a certifying actuary, the Authority shall consider whether he is a member an Actuarial Society on the Authority's list of approved professional bodies in Asia, Australia and New Zealand.

4.2.2. Each licensed life insurer must appoint an actuary. The suitability of an actuary for the role is the responsibility of the licensed life insurer and must be dealt with in its fit and proper policy. The appointed actuary must hold an appropriate professional qualification approved by notice to the licensed life insurer from the Authority.

4.2.3. The authority will advise the non-life insurers when there is a requirement to appoint an actuary on a full time basis or for a specific purpose.

4.2.4 Where a person holds the office of appointed actuary or certifying actuary, as the case may be, of a licensed life insurer at the time it appointed another person as its appointed actuary or certifying actuary, the appointment of the other person shall not take effect until the appointment of the first-mentioned person is terminated by the insurer.

4.2.5. A licensed insurer shall, within 3 months after the date on which a person ceases to be its appointed actuary or certifying actuary, as the case may be, or within such longer period as the Authority may allow in any particular case, appoint another person to be its appointed actuary or certifying actuary, as the case may be.

4.2.6. For the purposes of paragraph 4.2.5, the date on which a person ceases to be the appointed actuary or certifying actuary of a licensed insurer is;

where the person ceases to be an appointed actuary within the meaning of regulation or a certifying actuary within the meaning of regulation as the case may be, the date of such cessation;

where the person dies, the date of his death;

where the person resigns as the appointed actuary or certifying actuary of the insurer, the date the resignation takes effect; or

where the appointment of the person as the appointed actuary or certifying actuary of the insurer is terminated by the insurer, whether on the insurer's own initiative or pursuant to a direction by the Authority, the date the termination takes effect.

5. Resignation or termination of an actuary

5.1. Where a person resigns from his position as the appointed actuary or certifying actuary of a licensed insurer, the insurer shall furnish to the Authority a written notice as soon as possible stating the circumstances of and reasons for the resignation of the actuary.

5.2 Where a licensed insurer terminates the appointment of a person as its appointed actuary or certifying actuary on the insurer's own initiative, the insurer shall notify the Authority in writing as soon as possible of the termination and furnish the Authority with the reasons for the termination

5.3. In some cases, actuaries who do not meet the standard criteria set out in the regulations or supervisory rules may be subject to separate approval by the Authority on a case-by-case basis. However, the actuary should always be subject to the general fit and proper requirements that are applicable to others.

6. The role and responsibilities of the appointed actuary

6.1. Solvency margin

6.1.1. The valuation of liabilities by Appointed Actuary will be on best estimates plus a margin for solvency,

6.1.2. If any simplifying assumptions are made or simplifying methodologies are used in calculating the licensed insurer's Solvency Margin, the appointed actuary must:

ensure that such simplifying assumptions or methodologies result in a more prudent assessment of the licensed insurer's Solvency Margin;

disclose such simplifying assumptions or methodologies in any associated reports; and

justify such simplifying assumptions or methodologies on the grounds of materiality or that they provide a more conservative outcome

6.1.3 The appointed actuary must perform or review a licensed life insurer's calculations of Solvency Margin in accordance with the relevant solvency standard issued by the authority.

6.2. Financial Statements

6.2.1 A review by a licensed insurer's appointed actuary of actuarial information in the financial statements is required annually. The Authority will specify, within the solvency standard, the information which is actuarial information for the purpose of the solvency standard. The specified information for the purpose of this solvency standard is:

the Policy Liability;

the reinsurance and any other recovery asset(s) relevant to the Policy Liability, or relevant to outstanding claims reserves or incurred but not reported claims reserves held outside of the Policy Liability;

any deferred or other tax asset relevant to the Policy Liability;

any deferred acquisition cost or deferred fee revenue relevant to the Policy Liability;

the unvested policyholder benefits liability; and

any other information deemed by the appointed actuary to warrant actuarial review for the purpose of profit or solvency reporting.

6.2.2. If it is a licensed life insurer's established policy to seek the advice of the appointed actuary in respect of part or all of this information and to always adopt that advice in its financial statements, then the advice from the appointed actuary to the licensed life insurer satisfies the review requirements of this solvency standard.

6.2.3. In other circumstances the appointed actuary must undertake whatever additional work is necessary in order to complete the review for the purposes of this solvency standard.

6.2.4. . The results of the appointed actuary's review must be documented in a report that meets the requirements of the Insurance Law.

6.4. Other responsibilities

6.4.1 The responsible actuary in life insurance, is required to provide advice to the insurer on the establishment of the technical provisions. The authority may require actuarial advice on the technical provisions for nonlife companies from time to time.

6.4.2. In life insurance, the actuary is required to provide advice on items such as: the premiums to be charged ; the terms and conditions of insurance contracts; their risk assessment policies; the adequacy of reinsurance arrangements; the investment policy; advice on the determination of the allocation of profits, distributions or bonuses to participating life insurance policyholders, transfers of

profit, or the distribution of capital back to shareholders, This advice is required to be formal and in writing and is to be made available to the authority.

6.4.3. The authority may require an actuary to advice to non-life insurers on: the premiums to be charged; the risk assessment policies of the insurer; the adequacy of reinsurance arrangements; and the risk control, particularly by means of claims statistics.

6.4.4. The Authority may from time to time require the responsible actuary to do stress testing and provide results regarding the potential impact on the current and future financial condition of the insurer to management, the Board of Directors and the Authority.

6.5.5. The responsible actuary should have direct access to the insurer's Board of Directors, as necessary, particularly to provide advice on emerging risk management issues or on particular accounting issues.

Guideline 14: Regulations on Reinsurance

These regulations have been drafted by consultant for the purposes of

- A review by MOF.
- The distribution of the regulation to insurance stakeholders to obtain feedback from insurance stakeholders on the regulation.
- Finalize the regulation after reviewing the feedback. to submit to the Minister of Finance.

1. Short Title and Commencement

These regulations shall be called the Reinsurance regulations;

These regulations shall come into force on the date of their publication in the [

2. Definitions and Interpretations

2.1 In these regulations, unless the context otherwise requires, -

2.1.1 "Act" means the Insurance Law 21 November 2011;

2.1.2 "Authority" means the Insurance Regulator the relevant department in the Ministry of Finance (MOF)

2.1.3 "Designated person" means a responsible person in the Insurance Regulator's office who has been delegated authority to make decisions on Reinsurance.

2.1.4 "Reinsurance" is defined in the Insurance Law as "the activities of the insurer who carries out risk management on general insurance to be reinsured with a reinsurer within the country or in a foreign country". ; This regulation adds to this definition to cover all types of insurance. Reinsurance means a facility or a formal arrangement with another insurance company or a Reinsurance company that provides an insurer with better flexibility for insurers in the size and types of risk and the volume of business they can reasonably underwrite.

2.1.5 'retention' means the amount of risk which an insurer assumes for his own account.

3. Scope and Purposes of this regulation

3.1 This regulation shall apply to all licensed insurers and organizations providing insurance services.

3.2 The purposes of this regulation are:

3.2.1 To establish requirements for reinsurance programs and risk for all insurers. And

3.2.2 To establish requirements for the conduct of all Reinsurers operating in the Lao PDR insurance market.

4. Provisions

4.1 Description of Reinsurance

4.1.1. Article 15 of the Insurance Law describes Reinsurance as insurance that involves the allocation of risks for general insurance that the insurance company (insurer) reinsures with another domestic or foreign insurance company (called reinsurer) in accordance with insurance principles as provided in related laws and regulations for which the insurer shall be responsible for the payment of indemnity or compensation for damages of the portion that is reinsured to the insured or beneficiary in case that the reinsurer is insolvent.

4.1.2. Reinsurance shall be suitable to business operation situations of the reinsurer who shall fulfil all requirements, is reliable to the domestic, regional and international insurance market, is financially stable and has full experience in the reinsurance business.

4.1.3. In addition to the description in the Insurance Law on reinsurance, this regulation increases the dimension of the description by including life insurance as a business which is covered by reinsurance.

4.1.4 Article 16 in the Insurance Law defines the Reinsurance business as :

- (i). Ceding to one or more other insurers a part of the liability insured;
- (ii). Accepting to insure again a part or all of the liability which another insurer has insured.

4.2 Reinsurance shall be carried out in accordance to the following requirements:

4.2.1. . Shall be suitable to the conditions of the business operation of the reinsurer;

4.2.2. Shall be technically feasible and suitable to the field of business operation of the authorized reinsurer;

4.2.3. Shall be reliable and reputable among insurance markets in Lao PDR, in the regional and international insurance markets, financially sustainable and has expertise in the field of reinsurance. If the Ministry of Finance examines that the reinsurance does not fulfil the requirements defined above, it has the right to send a written notice to cancel or to revise or not permit the reinsurance business.

5. Liability in the reinsurance business:

5.1 Article 73 of the insurance law identifies the areas of liability as being; cash flow, security, and investments;

5.1.1. The insurer shall be responsible to the purchaser of insurance in accordance with an insurance contract, including reinsurance of property.

5.1.2. The reinsurer is not allowed to require the purchaser of insurance to pay insurance premium to him/her directly, except if the insurance contract defines otherwise.

5.1.3. The purchaser of insurance is not allowed to require the reinsurer to pay compensation to him/her, except if the insurance contract defines otherwise.

6. Procedure to be followed for reinsurance arrangements.---

6.1 Every insurance shall draw up a program of reinsurance in respect of risks covered by all of their policies and the risk of the organization. This program is required to be approved by the company's board of directors. This requirement provides more detail to Article 70 in the Insurance Law on reinsurance principles.

6.2 The profile of such a program, shall be recommended by the Appointed Actuary to the board of directors for approval.

6.3 Details of the reinsurance program will be provided to the authority. The detail will include: the name(s) of the reinsurer(s) with whom the insurer proposes to place business and the details of the reinsurer's rating. The authority will develop a list of approved reinsurance companies based on the expertise and financial position of the reinsurance organization. From time to time this list will be updated and advised to the insurance companies.

6.4 The reinsurance program shall be filed with the Authority with sufficient detail to cover the appropriate level of risk, the terms of the reinsurance program and the costs associated with the program, at least forty five days before the commencement of each financial year, by the insurer. The Authority shall examine such a reinsurance program at least on an annual basis.

Every insurer shall endeavor to retain the maximum premium earned in Lao PDR commensurate with his financial strength and volume of business.

The placement of business by the insurer with any other reinsurer shall be with the prior approval of the Authority. No insurer shall have a reinsurance treaty arrangement with its promoter company or its associate/group company, except on terms which are commercially competitive in the market and with the prior approval of the Authority, which shall be final and binding.

Every insurer shall submit to the Authority statistics relating to its reinsurance transactions in such forms as it may specify, together with its annual accounts.

10. Inward Reinsurance Business.---

10.1 Every insurer who wants to write inward reinsurance business shall adopt a well-defined underwriting policy for underwriting inward reinsurance business.

10.2 An insurer shall ensure that decisions on acceptance of reinsurance business are made by persons with adequate knowledge and experience, preferably in consultation with the insurer's appointed actuary.

10.3. An insurer shall file with the Authority, at least forty five days before the commencement of each financial year, a note on its underwriting policy indicating the classes of business, geographical scope, underwriting limits and profit objective.

10.4. An insurer shall also file any changes to the note referred to in sub-regulation 10.3 as and when a change in underwriting policy is made.



Guideline 15: Regulations on Claims

These regulations have been drafted by consultant for the purposes of

- A review by MOF.
- The distribution of the regulation to insurance stakeholders to obtain feedback from insurance stakeholders on the regulation.
- Finalize the regulation after reviewing the feedback to submit to the Minister of Finance.

1. Short Title and Commencement

- 1.1. These regulations shall be called the Claims regulations;
- 1.2. These regulations shall come into force on the date of their publication in the [

2. Definitions and Interpretations

- 2.1 In these regulations, unless the context otherwise requires, -
 - 2.1.1 "Act" means the Insurance Law 21 November 2011;
 - 2.1.2 "Authority" means the Insurance Regulator the relevant department in The Ministry of Finance (MOF)
 - 2.1.3 "Designated person" means a responsible person in the Insurance Regulators office who has been delegated authority to make decisions on claims.
 - 2.1.4 "Claim" means a demand for compensation, restitution, repayment or any other remedy or relief in respect of loss or damage or in respect of obligation arising from an insurance policy.
 - 2.1.5 "Claimant" means a person who has a right to a claim arising from a contract of insurance between a policy holder and an insurer.
 - 2.1.6 "Claims settling agent" means any person who is specifically licensed by the Authority to facilitate the settlement of claims.
 - 2.1.7 "Claims settlement document" means any document used to support claims.
 - 2.1.8 " Legal practitioner" means any person licensed as a legal practitioner and who provides insurance claims management services
 - 2.1.9 " Letter of appointment" means a letter by which a claimant authorizes a person providing insurance claims management services to process a claim on his behalf.
 - 2.1.10 "Policy holder" means the same as purchaser of insurance as defined in the Insurance Law.

3. Scope and Purposes of this regulation

- 3.1 This regulation shall apply to all licensed insurers and organizations providing insurance services.
- 3.2 The purposes of this regulation are:
 - 3.2.1 To establish requirements for claims to be paid by all insurers. And
 - 3.2.2 To establish requirements for the conduct of all insurers and reinsurers operating in the Lao PDR insurance market.

4. Provisions

- 4.1 Claims process procedures
 - 4.1.1. An insurer shall within three (3) working days of receipt of a notification of a claim from a claimant ;

(a) Provide necessary claim forms, instructions on procedures relating to the claim, and any other assistance to the claimant. and

(b) Issue a written acknowledgement to the claimant that identifies a liaison person in relation to the claim, including the liaison's person's name, a direct or mobile phone number. An email address to contact and a claim number.

4.1.2. An insurer will provide the claimant with an explanation of the rationale for the involvement, if any, of other parties such as loss adjustors, legal practitioners, doctors or consultants unless there is an investigation relating to fraud.

4.1.3 An insurer will within seven (7) working days after the period referred to in sub paragraph 4.1.1 has lapsed, respond to all other communications from the claimant or his agent.

4.1.4 An insurer shall where it appears, that the claim is not covered by the insurance policy, send a notification within five (5) working days after the period referred to in sub paragraph 4.1.3 has lapsed, to the claimants explaining why the claim is not covered.

4.1.5. In relation to any claim an insurer shall ensure that:

(a) any method which takes into account specific factors such as depreciation, discounting, negligence on the part of the claimant is clearly explained to the claimant; and

(b) Any loss valuation methods used are clear and coherent with regard to acceptable standard market practice.

6. Investigation of a claim

6.1 Where claims processing requires the investigation of a claim by an independent body or an individual, the insurer shall ensure that such an investigation is completed within a reasonable period, in any case not later than fourteen (14) days.

6.2 The policyholder and insurer shall have the right to appoint a loss adjuster of their own choice at their own expense, provided the appointed assessor has a valid license issued by the Authority and is acceptable to the Authority.

6.3 When the investigation cannot be concluded within the prescribed period fourteen (14) calendar days, an insurer shall notify the claimant and extend the period of investigation, provided that any period of investigation therefrom shall not exceed sixty (60) working days.

7. An insurer shall process an insurance claim and present the discharge certificate to the claimant within seven (7) working days of receipt of the investigation report or claims settlement document.

8. When the claim cannot be processed by reason of the findings of the investigation report, the insurer shall notify the claimant promptly; except

8.1. When an insurance policy is arranged on a co -insurance basis, if claim settlement procedures involve several insures or reinsurer's policy paying the claim is a high priority. The lead insurer will be responsible to make the claim i.e. the insurer the customer has direct contact with. Any potential disputes between co-insurers, reinsurers and or other parties is resolved at a later stage

8.2 Where all necessary and relevant claims settlement documents are made available to the insurer, the insurer shall not refuse to settle a legitimate third party claim on the basis that the insured policy holder has not reported the issue.

9. An insurer shall maintain a file for each claim processed which shall include but not limited to the following information and documents.

- Claim number
- Policy number
- Name of claimant or intended party

- Summary sheet showing development, review of the claim
- Type of insurance cover
- Opening date of file
- Date of loss
- Date of receipt of claim by insurer
- Description of claim
- Assessment date
- Electronic and hard copy of loss adjustors or investigators reports where applicable
- Identity of loss adjustor
- Estimate cost of damage including monitored revisions
- Date and amounts of payments
- Date of repudiation if applicable
- Date of file closure
- Records of excess deductions
- Reinsurance (if any)
- Policy period
- Premium status



**SENIORS LIFE
INSURANCE**





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