

**FOR
AGENDA**

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June 17, 2002

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Republic of Estonia—Report on the Observance of Standards and Codes—Insurance Supervision—Update**

The attached update to the module on insurance supervision in the report on the observance of standards and codes for the Republic of Estonia has been prepared for information in the context of the 2002 Article IV consultation with the Republic of Estonia (SM/02/186, 6/17/02), which is tentatively scheduled for discussion on **Monday, July 1, 2002**.

It is expected that following the Board discussion, this report will be published on the Fund's external website.

Questions may be referred to Mr. Haas, EU2 (ext. 35630), Mr. Burgess, EU2 (ext. 37341), Mr. Schipke, EU2 (ext. 34569), and Ms. Sheridan, EU2 (ext. 35681).

Att: (1)

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INTERNATIONAL MONETARY FUND

REPUBLIC OF ESTONIA

**Update to the Report on the Observance of Standards and Codes, 2002—Insurance
Supervision**

Prepared by the European II Department¹

June 17, 2002

This update on developments since the June 2000 Report on Observance of Standards and Codes (ROSC) was prepared on the basis of information provided by the Estonian authorities. For a full description of institutions and practices, it should be read in conjunction with the original report.

- Starting from January 1, 2002 the unified Estonian Financial Supervision Authority is responsible for banking, insurance and securities market supervision.
- The following reflects information on recent changes and developments:

ISP 1 Licensing and ISP 2 Changes in Control. The Insurance Activity Act (IAA), Article 12 now contains a thorough list of information and documentation required upon licencing, including data on shareholders, supervisory board and management. Article 24 contains the list of preconditions to be fulfilled by members of aforementioned bodies in the process of licencing, including explicit requirements on the suitability of owners. IAA § 32 requires that a person who intends to acquire a qualifying holding, or to increase a qualifying holding so that the proportion of the share capital or votes held by the person exceeds 20, 33 or 50 percent or more is required to seek prior approval from the IAA. Starting from January 1, 2002, the FSA has the sole right of granting and withdrawing licenses.

ISP 4 Internal Controls. The IAA, Article 46 requires that insurers establish internal rules to regulate the activities of the managers and employees to ensure observance with legislation regulating the activities of the insurer and with resolutions of the directing bodies. IAA, Article 45 requires that an insurer form an independent internal audit unit so as to monitor all the activities of the insurer and its observance with legislation and best practice. The staff members performing

¹ This *Update* was compiled by Alfred Schipke.

internal audits are required to communicate immediately to the supervisory board and management board of the insurer, as well as to the FSA, any information that indicates a violation of law or which may affect adversely the interest of policyholders and the insured.

ISP 5 Prudential Assets and ISP 7 Capital Adequacy and Solvency. The IAA, Article 43 stipulates requirements of using derivatives as in the EU third directives on life and nonlife insurance. The instruction issued by the MOF on calculating the solvency margin was changed by The Degree of Ministry of Finance No. 71 in order to conform with European Union's first non-life insurance directive. On January 1, 2002 the new Degree of the Ministry of Finance "Order of Calculating Solvency Margin of Insurance Company" came into force. It also conforms to the European Union's first non-life insurance directive (Article 16.)

ISP 11 Monitoring, On-site Inspections, and Access to Information. The IAA, Article 76 provides the legal basis for the supervision of affiliates and companies belonging to the same group, but also associated companies. According to Article 80, the ISA has full access to information in order to conduct supervision.

ISP 12 Sanctions. According to the IAA, the FSA has more powers (fines, invocation of special regime, withdrawal of licence) in order to protect the interest of policyholders and insured persons.

ISP 13 Coordination and Cooperation. The FSA has signed two Memoranda of Understandings with home country supervisors of foreign insurance companies with affiliates in Estonia. The MOU with the Finnish Supervisory Authority have been concluded in the field of insurance market supervision on March 2002. The MOU with Germany have been concluded on the co-operation in the field of insurance, banking and investment firms' supervision in March 2002.

ISP 14 Confidentiality. According to the Financial Supervision Authority Act (FSAA), Article 54 states that information obtained in the course of the state supervision activities of the FSA is confidential and not subject to disclosure. FSAA will also allow confidential information obtained upon inspections to be disclosed to the employees of the Bank of Estonia and public servants of the MOF for the performance of their functions, on the condition that they are required to maintain confidentiality. Confidential information and documents containing information on the results of financial supervision may be disclosed also to the foreign supervisory body for supervisory purposes only.