

REPUBLIC



OF CYPRUS

GUIDE

ON THE SUBMISSION OF AN APPLICATION FOR OBTAINING A LICENCE TO TRANSACT INSURANCE/REINSURANCE BUSINESS BY A CYPRIOT INSURANCE/REINSURANCE UNDERTAKING

MINISTRY OF FINANCE

INSURANCE COMPANIES CONTROL SERVICE

This is a guide outlining the contents of a formal application for obtaining a licence to transact insurance/reinsurance business in the Republic of Cyprus, in accordance with the provisions of the Law on Insurance and Reinsurance Business and Other Related Issues of 2016 (“the Law”), to an entity which is establishing its head office and its registered office within the Republic of Cyprus and is incorporated under the provisions of the Law and the Companies Law. Such undertaking will be referred to in this document as “the applicant”.

Introduction

Under article 14 of the Law, the taking-up of business of insurance or reinsurance is subject to prior authorization from the Superintendent of Insurance (“the Superintendent”). To obtain an authorization, an applicant must make an application to the Superintendent. Throughout the authorization process the Superintendent ascertains if, in his opinion, the applicant complies with the appropriate provisions of the Law.

The authorization process

Initially, the applicant should contact the Insurance Companies Control Service (“the Service”) to arrange a preliminary meeting to discuss the application.

In advance of contacting the Service, each potential applicant must familiarize itself with the Law, the Insurance and Reinsurance Business and Other Related Issues Regulations of 2016 (“the Regulations”), all relevant guides and Orders issued by the Superintendent, as well as all other EU related legislation. All of the above are published in the Service’s website at <http://mof.gov.cy/en/directorates-units/insurance-companies-control-service> .

Subsequent to this, a request for authorization should be made by submitting all relevant information described in this guide. This guide does not purport to comprehensively refer to all pertinent information regarding an application and the applicant should expand on the required information where necessary, according to the specific nature of the proposed business. The Superintendent may request supplementary information, in order to assist in the process of reviewing the application and deciding on authorization.

The Superintendent aims to make the application process an efficient one, however, it must be stressed that it is not a one-step process; rather, it is an iterative process involving contact and consultation with personnel from the Service prior to and after

an application is formally submitted. If an applicant makes material changes to its application, it should submit a revised application incorporating all of the changes.

According to the Law, the Superintendent must examine a properly completed application including all relevant documentation within six months from the date of application. However, the Superintendent aims to process applications and take decisions as soon as possible.

In this respect, all of the listed information should be provided to the Superintendent including the payment of the relevant fees, in order to constitute a complete application. The assessment period will not begin, unless all required documents are submitted to the Superintendent and the relevant fees are paid. The assessment period will depend on the quality and completeness of the data submitted by the applicant.

The Superintendent will, where relevant, obtain references from other relevant supervisory authorities. Enquiries may also be made to overseas supervisory authorities in whose jurisdiction the applicant's parent/or group has a significance presence. It is imperative that a full list of regulated entities within a group is provided to enable the Superintendent to make contact as appropriate.

To assist applicants the following list is prepared, numbering the required data, Forms and information to be submitted by the applicant.

The applicant should also refer to articles 19 and 24 of the Law, as well as Article 3, of the Regulations.

The scheme of operations may be submitted in English or Greek, but all of the relevant Forms must be submitted in Greek. Relevant forms mentioned in the following list are can be found under the Service's website.

1.0 Details of the Applicant

- 1.1 Complete Form E.A.1(Application for granting a license to carry on/expand insurance/reinsurance business to a Cyprus insurance/reinsurance/mutual company):

(The applicant should note that as per article 18 of the Law the name of an insurance company has to be approved by the Superintendent, on condition that it has also been approved by the Registrar of Companies under the relevant provisions of the Companies law. For newly formed undertakings, before registering the company a letter of request for approval of the name should be submitted to the Superintendent.)

- 1.2 Provide details of professional advisors in relation to the application and confirm that the Superintendent can liaise with them in respect of this application.

2.0 Ownership

According to articles 2 and 58 of the Law, any person natural or legal, who either individually or in cooperation with others has a direct or indirect participation in the share capital or the voting rights of an insurance/reinsurance undertaking of 10% or higher is considered a qualifying holder.

- 2.1 Complete relevant forms with all supporting evidence required for all qualifying holders:

- a. if the qualifying holder is a natural person complete Form E.A.13 (Information of a proposed physical person who intends to acquire/increase his direct qualifying holding in a Cyprus insurance/reinsurance company) ;

- b. if the qualifying holder is a legal person complete Form E.A.12 (Information of a proposed legal person who intends to acquire/increase his direct qualifying holding in a Cyprus insurance/reinsurance company);

- c. for each of the qualifying holders of the above legal person complete:

Form E.A.12(a) (Information for a physical person who has/intends to acquire/increase his qualifying holding in a legal person who has/intend to acquire/increase his qualifying holding in a Cyprus insurance/reinsurance company), if it is a natural person;

Form E.A.12(b) (Information for a proposed legal person who has/intends to acquire/increase his qualifying holding in a legal person who has/intend to acquire/increase his

- qualifying holding in a Cyprus insurance/reinsurance company) if it is a legal person.
- 2.2 Provide a brief history/background of the parent of the applicant.
- 2.3 Is the applicant's parent part of a group? If yes, provide the organization chart and an overview of the ownership and structure of the parent and the group outlining:
- a. the legal structure of the group and the group's main activities/lines of business;
- b. the percentage holding in each company of each shareholder and where the applicant will be positioned in the group;
- c. provide audited accounts of the group for the last year.
- 2.4 Where the applicant has or will have more than one qualifying shareholders, or if the applicant holds or will hold a qualifying shareholding in any one or more companies, a diagram of the family tree should be attached.
- (The family tree should give details up to the ultimate beneficial owner/s, showing percentage size of holdings in each entity.)*
- 2.5 Is the applicant's parent subject to group supervision under the Law, or any other regulatory supervision?
- 2.6 If yes, outline the existing arrangements for supervision including contact details of the relevant supervisory authority.
- 3.0 Legal Structure**
- 3.1 Provide a certified copy of the Certificate of Incorporation of the applicant by the Registrar of Companies.
- (As per article 19(1)(i) one of the conditions for authorization is that the undertaking maintains both its head office and registered office in the Republic of Cyprus.)*
- 3.2 Provide a certified copy of the Memorandum and Articles of Association.
- (In accordance with article 19 of the Law:*
- a. *with regard to insurance undertakings, they must limit their objects to the business of insurance and operations arising directly there from, to the exclusion of any other commercial business and*
- b. *with regard to reinsurance undertakings, they must limit their objects to the business of reinsurance and related operations, including a holding company function and activities with the function and activities of a holding company in the financial sector, within the*

meaning of the directives on financial conglomerates which are issued by the Superintendent.)

4.0 Scheme of operations

4.1 Objectives and Proposed Operations

4.1.1 Provide a documented applicant's business strategy, including a documented group strategy (if the applicant forms part of a group), which should include at least:

a. the Classes of Insurance being applied for;

b. details of the applicants products and business;

c. the rationale for seeking an insurance authorization and establishing in Cyprus;

d. the target financial objectives of both the group and the applicant, e.g. return on equity;

e. a detailed description of the main factors influencing the proposed business model and how the undertaking intends to control the success and /or failure of its business model;

f. details in relation to the areas of competitive advantage which will keep the undertaking viable and sustainable.

4.1.2 A description of the proposed sources of business of insurance (e.g. insurance intermediaries, direct selling, branch offices, website, etc.) and the approximate percentage from each source, as well as customers to be targeted.

4.1.3 If the applicant intends to carry on business in countries outside of Cyprus, the countries in which business will be written and,:

a. if this business will be in a country or countries in the EU, whether this will be on a freedom of services or establishment basis and provide the rationale for the proposed FOE, FOS structure;

b. if this business will be in a country or countries outside the EU, provide an overview of how the applicant can underwrite that business in such country or countries as an authorised undertaking with head office in Cyprus.

4.1.4 If the applicant intends to underwrite motor vehicle liability insurance:

a. provide the name and address of the claims representative appointed or to be appointed in each Member State that the applicant proposes to write business other than the Republic; and

b. provide a declaration attending that the applicant will become member of the Motor Insurer's Fund.

4.2 **Organisation and Governance of the applicant**

4.2.1 Provide a corporate structure chart and a description of the proposed apportionment of significant responsibilities between the applicant's management team. The structure chart should set out the management structure, responsibilities and reporting lines.

4.2.2 Complete Forms E.A.2 (Information for a person proposed to be appointed in a Cypriot insurance/reinsurance/mutual company), with all relevant documentation required for each of the following proposed persons:

a. members of the Board of Directors;

b. any persons that will essentially be governing the applicant;

c. key function holders of the company;

d. persons responsible within the applicant for outsourced functions or activities.

4.2.3 Provide full details of any proposed outsourcing by the applicant to both related companies and third parties:

a. name and description of the function or activity to be outsourced;

b. name of the proposed service provider and a c.v. of the person to be responsible for the function at the service provider;

c. provide a copy of all draft outsourcing agreements;

d. provide details of how the outsourced activities will be monitored and controlled including details of key performance indicators used;

d. confirm that the Service will have full and unrestricted access to all information relating to outsourced functions or activities as well as to the service provider's business premises if an on-site inspection or audit is to be performed;

- e. confirm that the applicant will have full and unrestricted access to all information related to outsourced functions or activities as well as the service's provider's business premises if an on-site inspection or audit is required.
- 4.2.4 Provide a Curriculum.Vitae for the proposed certifying actuary as required by Regulation 17 as well as all documents according to Regulation 15.
- 4.2.5 Provide details of proposed Board committees.
- 4.2.6 Provide a summary of the arrangements by which systems and controls will be established and maintained in the organization, including an explanation of how these will be overseen. The scheme of operations should set out the capacity of the applicant's systems and controls to monitor and control all significant aspects of the applicant's operations.
- 4.2.7 Provide a list of the main policies of the governance system of the applicant.
- 4.2.8 Outline the projected staffing requirements for the first 3 years of the applicant's operations.
- 4.2.9 Provide full details regarding the possible conflicts of interest arising in the conduct of the different types of activity under the applicant's control, demonstrating that adequate arrangements have been made to protect the interest of policyholders.
- 4.3 Risk Management**
- 4.3.1 Provide a description of the Risk Management System (RMS) comprising of:
- a. strategy, including general risk appetite;
- b. processes and procedures which enable the applicant to identify, measure, monitor, manage and report risks on a continuous basis;
- c. a list of quantifiable and non-quantifiable material risks that could affect the success of the business. Where the applicant is expected to carry on cross border business, associated risks are to be identified separately. For material risks, the applicant is to note the risk owners, severity and frequency and any risk mitigation controls to be applied.
- 4.3.2 Submit a copy of the risk appetite and tolerance limits for each risk category.

4.3.3 Identify the applicant's key dependencies.

4.3.4 Identify the pressure points that can potentially cause severe deterioration to the applicant's financial position and solvency position.

4.3.5 If the applicant forms part of a group, provide a description of the complexity, interdependency and interconnectedness that exists between all the group entities.

4.3.6 Provide documented business continuity plan covering the areas where the applicant considers itself to be vulnerable, including details of when such plan is intended to be reviewed, updated and tested.

4.4 Key functions

4.4.1 For the internal audit, compliance, actuarial and risk management function provide the following:

a. outline the structure of the function including reporting lines, and expected frequency of reporting of the function;

b. detail the role and objectives of the function;

c. provide full details of the risk management/internal control procedures within the function.

4.5 Underwriting

4.5.1 Provide a description of the underwriting activities of the applicant including who will be undertaking such activities, reporting lines, authority levels/limits and how such limits are monitored.

4.5.2 Provide a description of the underwriting guides and criteria.

4.5.3 Submit an overview of the proposed underwriting team including their experience and qualifications.

4.5.4 Submit draft copy of policy wordings.

4.6 Policy and Claims Administration

4.6.1 Provide details of the policy administration function including the reporting lines of the function, the key reports utilized and the frequency of reporting.

4.6.2 Provide details of the claims administration function including the reporting lines of the function, the key reports utilized and the frequency of reporting.

4.7 Investment strategy

4.7.1 Provide a description of the applicant's proposed investment strategy, including details of the diversification, currency and types of investments which are expected to represent the insurance or reinsurance funds and the arrangements for the maintenance of adequate liquidity.

4.7.2 Provide a detailed description of how the investment strategy will follow the prudent person principle as described in article 139 of the Law.

4.7.3 Provide a description of the procedure for appropriately valuing and verifying the investments and monitor the performance of the investments.

4.7.4 Provide a description of how the applicant intends to monitor any conflict of interest that arises regarding investments, irrespective of whether they arise in the applicant or in the entity which manages the asset portfolio

4.8 IT Systems

4.8.1 Provide information on the IT systems to be used, details as to whether the applicant will be using off-the-shelf or bespoke IT systems and whether all IT Systems are capable of communicating with each other.

4.8.2 Provide details of the IT service providers.

4.8.3 Provide details on where the server on which data is stored will be located.

4.8.4 Provide a copy of the business continuity plan.

4.9 Reinsurance

4.9.1 Provide the reinsurance policy, including setting reinsurance programs, level of risk transfer, selection of type of reinsurance, principles for the selection of reinsurance counterparties.

4.9.2 Detail the procedures for assessing effective risk transfer.

4.9.3 Detail the structure of the proposed reinsurance/retrocession programme, including excesses, limits, currencies and reinsurers for each line of business.

4.9.4 Provide draft reinsurance and/or retrocession treaties or cover notes.

4.10 Financial projections

The following projections should cover at least the first three years following authorization. Assumptions used in the calculations should be included as a separate report.

4.10.1 A forecast profit and loss account, broken down into a technical account and a non-technical account based on International Financial Reporting Standards. The profit and loss account should include, as a minimum, the following:

a. estimates of premiums (gross and net of reinsurance) analyzed by class of insurance, showing direct business and reinsurance accepted separately, and broken down by geographical territory;

b. investment return;

c. estimates of claims (gross and net of reinsurance) analyzed by class of insurance, and broken down by geographical territory;

d. a breakdown of forecast expenses;

e. commissions (both payable and received);

f. other charges and income;

g. taxation;

h. dividends.

4.10.2 A forecast balance sheet based both on International Financial Reporting Standards and on Solvency II valuation methods showing at least the following:

a. estimates of the Solvency Capital Requirement, as well as the calculation method used to derive those estimates and the reasons backing the assumptions made, in determining the level of capital to cover the inherent risks after the application of risk mitigation controls, under both a realistic and an onerous scenario;

b. estimates of the Minimum Capital Requirement, as well as the calculation method used to derive those estimates, under both a realistic and an onerous scenario;

c. details (amount and type) of the proposed financial resources intended to cover technical provisions, the Minimum Capital Requirement and the Solvency Capital Requirement, including the basic own fund items constituting the absolute floor of the Minimum Capital Requirement. The applicant shall also ensure that its source of capital meets or exceeds its Minimum Capital Requirement and Solvency Capital Requirement both in quality and quantity and provide a realistic contingency plan of how it can raise additional capital if the need arises;

d. any other documentation that support the Solvency II results, if any.

4.10.3 For long term business specifically provide a forecast statement, approved by a qualified actuary, showing the following information, broken down by geographical territory:

a. the number of contracts or treaties expected to be issued;

b. the total new business premium, both gross and net of reinsurance ceded;

c. the total sums assured or amounts of annuity per annum;

d. the technical bases used to calculate the forecast and estimates and the factors used to determine the level of the Solvency Capital Requirement;

e. if applicable, the method of distributing profits between policyholders and shareholders.

The forecast balance sheet should include an estimate of the required technical provisions, showing also the mathematical provisions divided into the major contract groups.

4.10.4 Additional information

a. Details of any future capital expenditure (e.g. for the purchase of fixed assets).

b. Estimates of the costs of setting up the administrative services and organization for securing business, and the financial resources intended to meet those costs, and, if the risks to be covered are classified as non-life business class 18, the resources at the disposal of the applicant for the provision of the assistance promised.

c. Estimates relating to expenses of management (other than costs of installation) and in particular to current general expenses and commissions.

- d. Documentation which the Superintendent will require for its prior approval in relation to the application for own fund items not on the list referred to in Article 69 of the Commission Delegated Regulation (EU) 2015/35 or any ancillary own fund items.

In general, the Superintendent will need to be satisfied that the applicant has enough financial resources to support the business described in the application and to cover the required Solvency Capital Requirement and Minimum Capital Requirement needed throughout the three years after authorization is granted and thereafter.

Where financial projections and other financial information is requested for this section, the financial estimates should be submitted in the format outlined in the Solvency II Quantitative reporting Templates (QRTs), numbered below (as applicable) and the currency used should be the currency of the applicant's financial reporting.

<u>Template Code</u>	
S.02.01.01	Balance Sheet
S.05.01.01	Premiums, Claims and Expenses - by LOB
S.05.02.01	Premiums, Claims and Expenses - by country
S.06.02.01	List of Assets
S.13.01.01	Projection of Future Cash Flows (Best Estimate - Life)
S.18.01.01	Projection of Future Cash Flows (Best Estimate - Non-life)
S.23.01.01	Own Funds
S.25.01.01	Solvency Capital Requirement
S.26.01.01	SCR - Market Risk Module
S.26.02.01	SCR - Counterparty Default Risk Module
S.26.03.01	SCR - Life Underwriting Risk
S.26.04.01	SCR – Health Underwriting Risk
S.26.05.01	SCR – Non-life Underwriting Risk
S.26.06.01	SCR – Operational Risk
S.27.01.01	SCR - Non-life and Health Catastrophe Risk
S.28.01.01	Minimum Solvency Capital Requirement - Non- Composite Undertaking
S.28.01.02	Minimum Solvency Capital Requirement - Composite Undertaking (in case of life undertakings applying for classes 1 & 2 of the first appendix to the Law)

5.0 **Other documents to be submitted**

5.1 Initial Balance Sheet as per Form E.A.10, verified by the applicant's approved auditors.

5.2 A written statement specifying the end date of the financial year.

6.0 **Fees**

6.1 As per article 10 of the Regulations, for the examination of the licence application the following fees are payable:

a. in the case of pursuing Life Insurance business fifteen thousand euro (€ 15,000);

b. in the case of pursuing Non-Life Insurance business ten thousand euro (€ 10.000)

c. in the case of carrying out reinsurance business in Life Insurance and Non-Life insurance business twenty thousand euro (€ 20,000);

Provided that if the Superintendent rejects the application for authorization to pursue insurance or reinsurance business under the Law the amount of two thousand euro (€ 2.000) is refunded.