

In order to foster better understanding and more efficient implementation of the *Decision on Internal Control and Risk Management Systems in the Operations of Insurers (Official Gazette of the Republic of Serbia No. 12/07)*, in line with the core principles of insurance supervision promoted by the International Association of Insurance Supervisors (IAIS), the National Bank of Serbia has adopted this

GUIDANCE PAPER No. 1

ON ACCESSIBILITY OF DATA AND INFORMATION TO THE FINANCIAL PUBLIC AND ON TRANSPARENCY IN THE INSURANCE MARKET

I. BASIC PROVISIONS

Addressees

This Guidance Paper shall apply to insurance companies, insurance brokers and/or agents, natural persons – entrepreneurs (insurance agents), agencies rendering other insurance services and other companies and other legal entities with a separate organizational unit in charge of other insurance services (hereinafter referred to as insurers).

Reasons for adoption of the Guidance Paper

Transparency and accessibility of information are key prerequisites for the implementation and functioning of market mechanisms and market discipline. The principle of transparency is a fundamental principle of the third pillar of Solvency II.

The fact that the transparency requirements pertaining to insurers are more stringent than those pertaining to other economic operators is due to the complexity of insurance operations. This complexity is reflected in the possibility of systemic and operational errors in the estimates of a company's future income and expenditures due to a number of factors. A particularly aggravating factor is the considerable time distance between forecasting of a liability and its actual incurrence.

Due to the nature of the insurance business and its inherent complexity, market operators need to have better access to information when making business decisions and taking business actions.

A high level of transparency in the field of insurance is necessitated by the need for all stakeholders and the public to be aware of the circumstances characterizing the insurance market and to have access to complete information on insurers. Timely and proper decision-making depends on the level of transparency. Information should be comprehensive and of high quality, so as to enable the investors to decide in which companies to invest their capital, to provide guarantees for policyholders' and beneficiaries' claims toward insurers and to enable the shareholders to use their management rights through voting on the appointment of members of their company's bodies, participation in profit distribution and decision-making on issues of key importance for the company. This will bring about to the

introduction of market mechanisms and create a broad awareness of the role of the financial sector and insurance as essential segments of the economy and potential drivers of industrial growth.

Objectives of the Guidance Paper

This Guidance Paper should result in the attainment of the following objectives:

- 1) Effective protection of interests of policyholders, beneficiaries and claimants;
- 2) Accessibility of information to all stakeholders;
- 3) Establishment of public trust in the financial system and the insurance sector.

For these objectives to be attained, it is necessary to ensure the functioning of an efficient, fair, safe and stable insurance market, to introduce market discipline and to ensure that insurers comply with the disclosure and transparency requirements, in line with good business practice and international professional standards.

II. INFORMATION USERS

Insurers should systematically, continually and timely provide all stakeholders and market operators (shareholders, policyholders, beneficiaries, agents and brokers, rating agencies, financial advisors, media, the public etc.) with relevant information on their business activities and financial standing in order to enable a better overview of their business operations and understanding of risks they are facing. The scope of this obligation of insurance operators may not be such as to compromise their business interests.

The users of information and data provided by insurers include:

- 1) Policyholders and beneficiaries or potential policyholders, as the case may be;
- 2) Shareholders (including minority shareholders);
- 3) Wider financial public and other stakeholders.

III. DISCLOSED INFORMATION

Insurers should disclose precise, reliable, timely, accurate and relevant data and information (in their reports, brochures, on websites, in product summaries, invitations to bid, insurance quotations or other documents issued by the company). Such information should constitute a reliable basis for business decision-making and decision-making in other spheres.

Insurers should make accessible any information in connection with the risk exposure of their assets, elements comprising their capital (primarily as regards the existence of reserves for such risks) and the income they generate.

An insurer should make the following information accessible (through its quarterly, semi-annual and annual reports, websites etc.):

- 1) Essential company information;
- 2) Key financial indicators (income, profit, total assets, capital, profit per share);

- 3) Information on the business policy (statement from the chairperson or CEO of the company, reports and opinions of the Board of Directors, the Executive Committee and the Supervisory Committee);
- 4) Reports on compensations disbursed to the members of the Board of Directors and the Executive Committee (salaries, bonuses and other fringe benefits);
- 5) Company management policies – development strategies and plans (to the extent the company considers necessary);
- 6) Information on business activities of the company (type of insurance, conditions, tariffs etc.);
- 7) Overview of activities (financial review, operating results, financial positions, total premium, key products);
- 8) Product description;
- 9) Amount of capital;
- 10) Organizational structure (graphic representation with names of management members and members of all boards and committees);
- 11) Corporate Governance Reports (environment, Board of Directors, Executive Committee, Audit Committee, CEO's reports);
- 12) Risk and capital management reports;
- 13) Reports on legality and compliance of operations with the regulations (organization and coordination, internal controls);
- 14) Overview of the company's financial standing – financial statements (balance sheet, profit and loss account, cash flow statement, statement of changes in capital and notes to the accounts);
- 15) Opinions of a certified actuary;
- 16) Reports of an independent auditor;
- 17) Excerpts of accounting policies, criteria, methods and assumptions used in the generation of information;
- 18) Key assumptions used in the application of actuary techniques to estimate/calculate future liabilities of the company;
- 19) Risk exposure and risk management method;
- 20) Portfolio structure and description;
- 21) Ownership structure;
- 22) Business results and performance indicators – ratios.

In addition, insurers should post on their websites certain minimum information, including:

- 1) Address of insurer's head office,
- 2) Contact details of the insurer, its branch, broker or agents;
- 3) Application procedures and description of insurer's procedure for claims adjustment;
- 4) Contact details of the organizational unit, body or organization responsible for resolving disputes and processing policyholder's claims.

IV. PUBLICATION OF INFORMATION CONCERNING INVESTMENT RISKS AND PERFORMANCE OF INSURANCE AND REINSURERS

Insurers should timely provide relevant information in order to enable an accurate review of their business activities and financial positions, thus allowing all stakeholders to acquire a better understanding of the risks to which these companies

are exposed. Insurers who are transparent and who behave adequately will be rewarded with good business results, while those less transparent will be less successful.

When disclosing information, insurers must ensure that products which involve different risks are classified according to the highest risk.

With a view to promoting disclosure and higher transparency, which are both conducive to market discipline, insurers should disclose information on:

- 1) Investment objectives, policy and management;
- 2) Assets structure and profile, with a brief description of assets;
- 3) Insurer performance indicators;
- 4) Risk exposure (qualitative and quantitative, by types of risks).

In their reports, insurers should disclose information on Asset Liability Management (ALM), the results of stress test, exposure to risk of inadequate assets management and exposure to other specific risks, including particularly the following:

- 1) Underwriting risk,
- 2) Market risk,
- 3) Operating risk (including strategic risk),
- 4) Risk of maturity and structural disparity of assets and liabilities,
- 5) Risk of depositing and investing the company's assets,
- 6) Legal risk,
- 7) Reputation risk.

In the part relating to insurance risk, the insurer should disclose information on price adequacy for the product it offers in the market, providing relevant data for the following ratios):

- 1) Damages ratio (the ratio between damages and collected premiums),
- 2) Expense ratio (the ratio between expenses and collected premiums),
- 3) Combined ratio (the sum of damages ratio and expense ratio),
- 4) Operating ratio (combined ratio adjusted through the addition of investment revenues in relation to premium revenues).

V. CHARACTERISTICS OF INFORMATION

Information intended for the public, potential policyholders, investors and other stakeholders must be:

- 1) true (giving an accurate view of the insurer);
- 2) reliable (so that stakeholders can rely on them when making decisions);
- 3) specific (sufficiently detailed and informative in connection with specific aspects of the activities pursued by the companies);
- 4) relevant (important or material for stakeholders' business decision-making);
- 5) timely (disclosed so as to be available to the stakeholders within shortest possible periods, thus enabling them to make timely market decisions; where necessary, updated daily);
- 6) free of charge for the users;
- 7) readily accessible (websites, call centers, reports, brochures etc.);
- 8) comprehensive and meaningful (enabling market participants to form a well-rounded view of the insurer);
- 9) comparable between the insurer and other companies;

10) interrelated, systematic and consistent over time, so as to enable relevant trends to be discerned.

Information disclosed by an insurer should be made public in good faith and should accurately represent what they disclose or may reasonably be expected to reveal.

VI. MANDATORY CONTENT OF INSURANCE TERMS, MATERIAL OR UNUSUAL EXCLUSIONS, STYLE, PRESENTATION AND LENGTH OF DOCUMENTS

Every insurance product should be described in detail and its characteristics should be clarified, so as to enable the client to make an independent and informed decision (whether to sign the contract and whether the product/contract suits his/her needs).

In the general, special and supplementary insurance terms and in other documents describing insurance products, terms and conditions and tariffs on a case-by-case basis, as well as in policy summaries, all material and unusual exclusions of specific cases not covered by the policy should be listed.

The list of cases excluded from the policy should be clear and unambiguous and must not mislead the policyholder or customer.

Material cases are all those that can influence a policyholder's decision to sign a contract, those that can reduce the costs for the insurer, those that have significant impact on the price of the product and those that indicate the insurance coverage of the policy.

Documents intended for policyholders should contain notes to the following effect:

- 1) that the policyholder should read the entire document;
- 2) that all interested parties (policyholder or insurance beneficiary or other interested party) can consult the website of the National Bank of Serbia to verify the address, essential information and legal status of an insurer.

Insurers are expected to clearly indicate:

- 1) in which cases insurance claims can be made;
- 2) whether and how a complaint can be lodged with the insurer and with the National Bank of Serbia;
- 3) a clear description of the complaint processing procedure at the insurer,
- 4) that clients may enforce their claims by filing a lawsuit with the competent court.

When using technical terms, insurers should consider whether the customer will be able to understand their meaning (whether their use is necessary; all explanations should be in Serbian and possibly multilingual; technical terms should be clearly defined and explained).

Unnecessary references and cross-references in contracts should be avoided, as should any references that mislead the customer as to the content of the contract.

In documents intended for customers, insurers should not use small-type fonts, fonts not suitable for presenting specific information.

Insurers are expected to review thoroughly their documents intended for customers, so as to assess whether the essential information is clear, unambiguous and concise.

VII. MANDATORY CONTENT OF PRODUCT SUMMARIES

Insurers' product summaries intended for potential customers should contain the following information:

- 1) Document title,
- 2) Whether the customer is entitled to cancel the insurance contract (policy) before its expiration or not,
- 3) The term of the contract,
- 4) References and exceptions from application should be clear, i.e. they should clearly refer the customer to the relevant sections of general or specific terms, with complete details.

VIII. INSURER'S OBLIGATIONS AT THE TIME OF CONCLUSION OF AN INSURANCE CONTRACT

Insurance companies, or insurance brokers or agents, should provide the potential customers will all necessary information in connection with the product and should treat them in a fair and honest way, in line with good business practice and customs.

It is vital that insurers provide simple, clear and unambiguous information, understandable to the average policyholder or customer, on the products and services it offers and on locations on which these are available.

When information is provided to a potential customer, it must be such as to allow the potential customer to make an informed decision and must include the following:

- 1) Details on the broker or agent (in particular whether it is affiliated or independent etc.);
- 2) Information on the insurer;
- 3) All relevant details about the product (including, without limitation: price, terms and conditions, purpose, risk factors, guarantees, special exclusions etc.);
- 4) Amounts of monthly or annual installments and the estimated returns, i.e. amounts payable by the insurer (where applicable);
- 5) Information on the relevant profit and all risks borne by the policyholder, presented in a true and fair way, enabling the policyholder to understand all his/her rights and obligations under the contract;
- 6) Other rights and obligations of both parties, presented in a clear, unambiguous and comprehensible way.

The insurer must ensure that the information it provides is materially precise, that it is not misleading for the customer and that it is comprehensible and readily accessible (written or in the electronic form).

The target level of transparency should enable the policyholder to clearly and reliably compare product values between different insurance companies, regardless whether such products are bought directly or through intermediaries.

Policyholders should be given absolute certainty as regards the purchased product, risks and insured cases covered by the product.

Insurance companies or intermediaries should give every policyholder together with his/her policy the general and specific terms applicable to the type of insurance covered by the policy.

It is essential that insurance companies enable the policyholder to examine the entire content of the contract before its conclusion.

Furthermore, they should extract all core elements – the most relevant information contained in the policy – and hand it to the other party on a durable medium (paper, electronic form, disk) which is adequate, suited and comprehensible to the customer (in a document not larger than one A4 format page).

The policyholder should sign a statement to the effect that he/she has had an opportunity to examine the content of the insurance contract and has understood all general, specific and supplementary terms in connection with the contract he/she is concluding or the product or service he/she is buying.

When concluding a life insurance policy with a profit-sharing plan, the insurance company must provide the other party with all relevant information and to submit periodic (annual as a minimum) reports on the profit to which the other party is entitled under the contract.

Furthermore, insurance companies should avoid vague and ambiguous advertising of their products and services.

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Responsible, transparent and market-oriented insurers of good business repute which operate in a competitive and modern market are the aim pursued by the National Bank of Serbia in the field of insurance supervision. Such insurers and market will give our citizens access to higher-quality insurance services in connection with various risks, while at the same time enabling them to lucratively invest their free assets with absolute certainty that their interests will be safeguarded.

The National Bank of Serbia, as a supervisory body, will not enforce this Guideline in insurers, but the implementation and proper understanding of the Guideline will, however, result in improvements in other fields under direct and indirect supervision and prevent situations in which insurers might be subjected to specific supervision measures.