



INSTRUCTION No. 08/2020

ON THE LICENSING OF LIFE INSURANCE COMPANIES

Taking into account that the insurance companies and insurance intermediaries wishing to operate in Timor-Leste shall obtain prior authorization from the Banco Central de Timor-Leste (BCTL) pursuant to Law No. 06/2005 of 7 July, on the regime for Licensing, Supervision and Regulation of Insurance Companies and Insurance Intermediaries (Insurance Law) and under the relevant regulations issued by the BCTL.

Considering that the licensing application information's delivery by life insurance companies must met all the legal and prudential requirements as prescribed in the Insurance Law, and the relevant regulations issued by BCTL.

Ensuring that the business activity conducted by life insurance companies takes into account the fundamental interest of policyholders' protection and is consistent with the viable and competitive advance of Timor-Leste insurance industry.

For purpose of fostering and strengthening the economy of Timor-Leste by promoting reputable and trustworthy services by the insurance industry.

The Governing Board of Banco Central de Timor-Leste pursuant to the authority granted in Article 31 paragraph 1 of Law no. 5/2011 resolves to approve the following Instruction:

CHAPTER I GENERAL PROVISION AND REQUIREMENTS

Article 1 Applicability

1. This Instruction applies to all applicants seeking to carry on the underwriting of life insurance business in Timor-Leste in respect of risks situated in national territory.
2. Life insurance business consists of the business of issuing life policies covering the death or life of one or more persons, or both, and may include supplementary insurance coverage.

Article 2 Form of Application

1. The initial application for a license or subsequent application for another class of insurance business license shall be writing either in one of official languages (Portuguese or Tetum) or English.
2. The applicant shall lodge the original and two complete copies to the BCTL (including all the support documentations).
3. In the case of a proposed new life insurance company, the life insurance company founders shall sign the application.

4. In the case of a branch of an existing foreign life insurance company, it shall be signed by an officer authorized by two directors of the parent company, and duly authorized for this purpose of establishment of a branch of an overseas life insurance company.

Article 3

Designation of Spokesperson

1. Applicants shall authorize in writing a spokesperson to act on their behalf regarding the application.
2. All communications from the BCTL related to the insurance application will be directed to the designated spokesperson. The spokesperson's name, address, telephone number, and email address, shall be provided in the application.
3. If, during the time the application is pending with the BCTL, the name, address, or telephone number, and email address of the spokesperson changes, the BCTL shall be notified in writing immediately.

Article 4

Minimum Capital

1. Authorized life insurance companies are required to have in place at all times sufficient share capital, which, for the time being, is not lesser than USD1,000,000.00 (One million American dollars). The BCTL will determine the level of minimum capital from time to time.
2. The BCTL will require a certificate from a BCTL's authorized bank verifying that the capital has been paid-up.
3. The amount of the share capital or the allocated capital should be maintained all times in an authorized bank in Timor-Leste.
4. In addition, life insurance companies should strictly comply with solvency margin requirements established by the Instruction of BCTL.
5. In case of any deviation from these requirements of the solvency margin, the BCTL, among other measures, may impose an increase of capital up to the amount necessary to settle the deficit situation.
6. The BCTL will assess the adequacy of start-up share capital for an applicant on a case-by-case basis, having regard to the size, business mix, complexity and risk profile of the business operations proposed in the business plan.

Article 5

Establishment of a new Life Insurance Company

1. No person shall engage in an insurance business regulated under this Instruction or assume to act as licensee unless licensed under the provision of this instruction and the Insurance Law.
2. Life insurance companies shall take on the form of a limited liability company or a joint stock company pursuant to applicable commercial company Law in Timor-Leste.
3. The same life insurance company shall not carry on classes of insurance business in the life insurance and general insurance simultaneously.
4. A life insurance company must appoint an actuary under the relevant Instruction, who should play a major role in the application, namely in the development of the business plan, the review of the terms and conditions of life insurance policies to be issued by the insurance company and to advice on the appropriateness of the proposed reinsurance mechanisms.
5. Within three (3) months of receipt of the application for a license to establish a life insurance company, BCTL shall either approve or reject it on a preliminary basis and shall notify the applicant in writing, indicating the grounds for such a decision.

6. In the case preliminary approval of a license to establish a life insurance company, BCTL shall indicate the conditions yet to be met for the definitive granting of a license and for the commencement of business.
7. A preliminary approval shall expire within one year of the date of granting of such approval.

CHAPTER II

INFORMATION REQUIRED FOR THE ESTABLISHMENT OF LIFE INSURANCE COMPANIES

Article 6

General Requirements

1. The general authorization criteria set out below are applicable to all applicants and they represent the minimum requirements that an applicant will need to meet for authorization under the Insurance Law and this Instruction and are not intended to represent an exhaustive list.
2. BCTL may refuse to grant authorization on other prudential grounds not covered in this Instruction or impose additional requirements taking into account the circumstances of the particular applicant.
3. For the protection of policyholder's interests and beneficiaries designated by them, BCTL will authorize only those applicants which have the capacity and commitment to conduct life insurance business on an unlimited time, with integrity, prudence and high professional expertise.
4. In case of an overseas life insurance company, the person responsible for its branch in Timor-Leste must reside permanently in this country.
5. Prospective applicants should understand well the requirements above mentioned and be able to demonstrate to BCTL adequate compliance process and systems relating to the legislation and regulations in force. Applicants should note that more prudent or stringent prudential requirements may be set on a case-by-case basis.
6. As an example, additional requirements may include conditions which limit the range of business of the life insurance company, or refer to the solvency margin, the capital adequacy, the risk management or the corporate governance considered the special circumstances of the life insurance company.
7. In the assessment of the opportunity and convenience for granting a license for the incorporation of a life insurance company, besides the general criteria previously established, it is considered the following:
 - a) Possibility of the applicant to improve the variety or the quality of the services rendered to the insurance consumers;
 - b) Integrity of the founder members which may, directly or indirectly, have a significant influence on the local insurance activity and management of the life insurance company, members of the board of directors, members of the supervisory board and of the board of general assembly;
 - c) Integrity and professional competence of the persons who effectively manage the life insurance company;
 - d) Sufficiency of technical support and financial resources to back up the activity in life insurance business the applicant intends to transact; and
 - e) Compatibility between the development prospects of the applicant and the maintenance of healthy competition in the insurance market of Timor-Leste.
8. In the assessment of the opportunity and convenience for granting a license related to the establishment of a branch of an overseas life insurance company, besides the general criteria previously established, it is considered the criteria referred in the subparagraphs of the previous number, with the exception of subparagraph (b), on the other hand, it is considered the economic-financial ratios of the evolution of the applicant in terms of premiums, claims, retention capacity and equity.

Article 7
Ownership of the Life Insurance Company

1. A shareholder of a life insurance company is considered to have a qualified shareholding when it holds at least 10% of the share capital in any time.
2. Any change on the shareholding structure of a life insurance company is subject to the prior approval of the BCTL according to the terms established in the Insurance Law.
3. The owners of qualified shareholding are required to demonstrate to BCTL that they are qualified individuals with academic background and in good financial standing or financially sound entities with technical capacity in the financial/insurance area.
4. BCTL may seek comparable information in relation to indirect owners with qualified shareholding, where this appears relevant and such individuals or entities may be in a position to influence the affairs of the life insurance company.
5. BCTL requires shareholders with qualified shareholding to be able to demonstrate that their involvement in the life insurance company will be a long-term commitment and they are able and willing to contribute additional capital if required. The decision will be based on a solid shareholder structure.

Article 8
Corporate Governance

1. An applicant should satisfy the requirements set out in BCTL's Instruction on corporate governance for insurance companies.
2. The members of the board of directors, managing director, and key persons in control functions or others indicated by the applicant, must also satisfy BCTL that they are fit and proper, in accordance with such Instruction.
3. BCTL may consult with other insurance regulators regarding the suitability of personnel for the proposed life insurance company.
4. An applicant must also appoint an external auditor and an actuary.

Article 9
Risk Management Framework

1. An applicant must demonstrate to the BCTL that its proposed (or existing) risk management and control framework is adequate and appropriate to monitor and limit risk exposures in relation to the operations of the life insurance company from the commencement of business in Timor-Leste.
2. This includes, in particular, the development, implementation and maintenance of policies and procedures to effectively monitor, manage and report on all material risks including, at the minimum:
 - (a) Asset and liability management risk;
 - (b) Operational risk;
 - (c) Life insurance risk, including risk arising out from reinsurance mechanisms; and
 - (d) Strategic and tactical risks that arise out from the business plan of the life insurance company.
3. The business plan must be reviewed by the life insurance company at least annually and it should have in place a Risk Management Strategy (RMS) describing the key elements of the risk management framework, supporting policies and procedures and clearly defined managerial responsibilities and controls.
4. An applicant is required to demonstrate to the BCTL on the adequacy of its internal audit mechanisms.

Article 10
Compliance

1. An applicant must demonstrate to the BCTL that its processes and systems will ensure compliance with:
 - (a) The Insurance Law;
 - (b) The prudential standards/rules established by Instructions of BCTL;
 - (c) Other national regulatory and legal requirements; and
 - (d) Overseas regulatory requirements where applicable.
2. In assessing whether the compliance processes and systems are appropriate to the applicant's operations, BCTL will have regard to the size, nature and complexity of those operations.

Article 11 **Reinsurance Management**

1. Before entering into any reinsurance mechanisms, a life insurance company must obtain the appointed actuary's written advice on the likely consequences.
2. Besides, a life insurance company must seek BCTL prior approval for reinsurance mechanism possessing certain features (financial reinsurance).
3. Life insurance companies are also required to submit to BCTL, on an annual basis, a reinsurance report detailing their reinsurance mechanisms of last year.
4. BCTL will establish by Instruction the parameters and type of information that should be contained in this report.

Article 12 **Information of Accounting System**

1. Life insurance companies are required to submit information on its accounting system to BCTL in according with the Insurance Law or relevant Instructions.
2. An applicant must demonstrate to the BCTL that its information and accounting systems are adequate for maintain up-to-date records of all business undertaken, so as to keep management continuously and accurately informed of the life insurance company's financial condition and the risks it is exposed.
3. This includes demonstrating to the BCTL that its systems are capable of producing statutory and prudential information in an accurate and timely manner from the commencement of operations of the life insurance company, including information needed by the appointed actuary to perform statutory functions.
4. Applicants should liaise with BCTL staff at an early stage regarding their reporting obligations.
5. In assessing the overall adequacy of the information and accounting systems, BCTL will have regard to the integrity and security of the systems and mechanisms for business continuity management.
6. Outsourcing of material data processing must satisfy the outsourcing requirements set out by the relevant Instruction of BCTL.

Article 13 **Supervision by Home Insurance Regulator**

1. An overseas life insurance company applicant must be an authorized life insurance company in its home country and have received any necessary consent from its home insurance regulator for the establishment of a branch in Timor-Leste.
2. The home insurance regulator will also need to confirm that such life insurance company is of good financial standing and, in the last three years, it didn't commit any serious infringement.
3. In assessing applications to establish a branch of an overseas life insurance company, BCTL will consider the level and scope of prudential supervision in its home country.

Article 14
Intra-Group Transaction and Arrangements

1. Where a corporate group has multiple businesses, it should have clear policies addressing how intra-group transactions are to be conducted.
2. Life insurance companies will be permitted to share premises with related entities.
3. In addition, joint functional support services, such as personnel and financial control will be allowed, although clear mechanisms for accountability and oversight must exist.

Article 15
Appraisal of Integrity of Persons

1. In appraising the integrity referred above it shall be considered relevant, among others, the fact that the person:
 - (a) Had been sentenced or has been indicted for crimes of robbery, theft, breach of trust, issuing cheques without funds, fraud, forgery, embezzlement, bribery, extortion, usury, corruption, money laundering or financing of terrorism, false declarations or unauthorized receipt of deposits or other repayable funds;
 - (b) Had been declared, by sentence transited in "rem judicata", bankrupt or insolvent or judged as being responsible for the bankruptcy of companies controlled by him or of which he had been administrator, director or manager; and
 - (c) Had been held responsible for committing infringements of the legal and regulatory norms which govern the activities of the institutions subject to the supervision of BCTL when the respective seriousness or the repeated failure to comply is considered relevant.
2. Notwithstanding of paragraph 1 above, a person is able to undertake administrator position or similar position after the final decision of court that he/she is not guilty or free from those indicated types of crime.

Article 16
Appraisal of professional competence

A person shall be considered as having professional competence if he earned adequate academic qualification or has previously performed, with competence, functions of responsibility in the financial, insurance or technical fields, and the length of time during which such functions were performed shall also be considered relevant.

Article 17
Supporting Information and Documents Required for the Establishment a Local and/or a Branches of Insurance Company in Timor-Leste

1. Proposed life insurance company:
 - (a) Name of the life insurance company in such expression which unequivocally suggests that its sole object is the carrying on of insurance activity;
 - (b) Draft of the Articles of Association, drawn up in accordance with the legal and regulations in force;
 - (c) Proposed initial share capital;
 - (d) Business plan, which details are set out in article 18; and
 - (e) Address where the business will be conducted from.
2. Ownership, board of directors, senior management, key persons and others:
 - (a) Financial statements (balance sheet and income statement) of all proposed shareholders for the past three years, either audited if available or in the format prescribed by the BCTL.

- (b) Personal and professional identification of all founder members indicating their respective share in the capital;
 - (c) No Criminal Record Certificate for each of the founder members with qualified shareholding issued less than 90 days before the date of the application;
 - (d) 'Fit & Proper Form' (provided by BCTL) duly filled by each of the founder members, all members of board of directors, senior management and key persons in control functions in managing the life insurance company's business;
 - (e) Outline of the proposed organizational framework; and
 - (f) Written undertaking by the founder members to provide additional capital, if required, and to confirm that their investment in the life insurance company represents a long-term commitment.
3. External Auditors and actuaries:
- (a) Details of the auditor proposed to be appointed for the life insurance company, under the requirements established by the relevant Instruction of BCTL; and
 - (b) Details of the actuary proposed to be appointed for the life insurance company, under the requirements established by the relevant Instruction of BCTL.
4. Risk and information management:
- (a) Outline of proposed reinsurance mechanisms and evidence that the reinsurance companies are willing to provide the proposed cover should also be included;
 - (b) Proposed Risk Management Strategy (RMS) describing the key elements of the risk management framework, including risk appetite, policies, procedures, management responsibilities and controls. The RMS must include the actions to be taken by the life insurance company if its share capital is reduced by half;
 - (c) Details of information and accounting systems (including any outsourcing of data processing and other back office functions);
 - (d) Evidence that, from the commencement of operations, information and other systems will be capable of producing all required statutory accounts and reporting forms in an accurate and timely manner, including information required by the appointed actuary;
 - (e) Details of outsourcing policy and arrangements;
 - (f) Arrangements for business continuity management (including any contingency plans);
 - (g) Internal audit mechanisms; and
 - (h) Policies setting out fit and proper requirements and other selection policies for responsible persons.
5. Other Key Personnel: nominated persons for the roles of Compliance Officer and Internal Auditor.
6. Prudential supervision by BCTL:
- (a) Written undertaking by the applicant to:
 - (i) comply with BCTL's prudential requirements at all times;
 - (ii) consult and be guided by BCTL on prudential matters, including in respect of new business initiatives; and
 - (iii) provide BCTL with any information which may be required for prudential supervision of itself (and its consolidated group).
 - (b) Written undertaking by the applicant to consult with BCTL prior to the establishment or acquisition of additional business, either domestically or overseas; and

- (c) Evidence that arrangements have been established for each of the applicant's proposed auditor and actuary (where applicable) to carry of their duties in accordance with the relevant Instructions.
7. Other information is required to be submitted by a branch of an overseas life insurance company:
- (a) Certificate of incorporation of the applicant and its authorization to carry on life insurance business in its home country;
 - (b) By-laws of the applicant;
 - (c) Outline of the supervisory arrangements to which the applicant is subject to its home country;
 - (d) Statement from the applicant's home insurance regulator:
 - (i) Consenting to the application to establish a branch in Timor-Leste subject to the BCTL approval;
 - (ii) confirming the applicant is of good financial standing and comply with all prudential requirements and has no formal enforcement actions currently outstanding or pending;
 - (iii) The applicant life foreign insurance company, including its branches in Timor-Leste, will be supervised on a consolidated basis by the home country regulator, in accordance with the principles contained in the Insurance Core Principles; and
 - (iv) The home country regulator agrees to co-operate with BCTL in supervision and keep the BCTL informed of any significant developments adversely affecting the parent life insurance company's financial soundness and/or reputation globally.
 - (e) Details on where the applicant carries on life insurance business in Timor-Leste in its first three years of operations and whether it is complying with the relevant legislation and regulations;
 - (f) Formal undertaking by the applicant to keep BCTL timely informed of any significant developments adversely affecting its financial soundness and/or reputation globally, and to provide promptly to BCTL copies of its annual reports and other significant media releases (with translations where appropriate);
 - (g) Auditor's certificate (from the proposed appointed auditor) verifying the solvency and the adequacy of the allocated capital by the applicant to its branch in Timor-Leste; and
 - (h) Actuary's opinion (from the proposed appointed actuary) to the applicant regarding policies and reinsurance arrangements.

Article 18

Supporting Information and Documents Required on Business Plan for the First Three Years of Life Insurance Company in Timor-Leste

1. Structure of the business:
 - (a) Outline of the proposed activities and scale of operations, including details of the proposed types of life insurance business to be written, relevant expertise, and any plans to outsource operations; and
 - (b) Estimation of the timeframe over which the network between the head office and the branch will be established.
2. Financial projections:

Projections (including sensitivity analysis) of the following:

 - (i) detailed underwriting account, profit and loss account and balance sheet;
 - (ii) key financial and prudential ratios for the applicant indicated by BCTL; and

- (iii) key financial and prudential ratios for the applicant and its subsidiaries on a consolidated basis.

3. Other information:

- (a) Reinsurance program, detailing the business strategy to be adopted in respect of inward and outward reinsurance;
- (b) Estimation of organization and preliminary expenses, namely those relating to the administrative and commercial aspects of the business;
- (c) Estimation of administrative expenses, namely commissions and general expenses;
- (d) Number of employees by place of recruitment and their respective salaries;
- (e) Premiums, claims and technical reserves [provisions for profit sharing, provisions for life insurance and operations (including mathematical reserves and others), provisions for claims, provisions for unearned premiums and unexpired risks reserve], with the breakdown by the products of life insurance;
- (f) Half yearly position of the treasury (cash in hand and at bank);
- (g) Solvency margin position calculated in accordance with the relevant regulations; and
- (h) Financial resources to guarantee the responsibilities assumed.

**CHAPTER III
FINAL PROVISIONS**

**Article 19
Significant changes to business plan**

1. All significant change to the business plan affecting the operations of the life insurance companies include, but are not limited to the shareholders, management and supervisory bodies, and senior officers, shall obtain prior written approval by the BCTL before their adoption and implementation.
2. Violations of this requirement will be subjected to sanctions prescribed under the Insurance Law or BCTL instructions.

**Article 20
Entry Into Force**

This instruction shall come into force on the subsequent day of its publication on the Jornal da República.

Approved on 25 November 2020

Abraão de Vasconcelos
Governor