

## **Unofficial Translation**

Attachment to resolution No.188 (2007)  
issued by Financial Regulatory Commission

### **REGULATION ON CONDUCTING INSPECTION ON INSURER'S OPERATIONS**

#### **One. General provisions**

- 1.1 The purpose of this regulation is to be followed when conducting inspections over the implementations of the laws on Insurance, professional stakeholders of insurance, license to run business operations and accounting, regulations and procedures issued by the Financial regulatory commission (hereinafter referred to "Commission") and other applicable legislation at Insurance company ("hereinafter referred to "Insurer") and professional stakeholders of insurance (hereinafter referred to "professional stakeholders of insurance").
- 1.2 "Planned inspection" shall mean conducting a detailed inspection, evaluation and issuing conclusion on entire performance indicators based upon primary activities, financial statements, primary accounting records and charter, guidelines, regulations and resolution issued by the Company within the schedule and terms of reference approved by the Commission.
- 1.3 "Thematic inspection" shall mean conducting inspection, evaluation and drawing conclusion on certain parts of operation, by types of issues, of Insurer and professional stakeholders of insurance, as to respond to complaints lodged by Insured and other relevant organizations, criticism published in the media or as required by Commission.
- 1.4 "Off-site supervision" shall mean receiving financial statements and additional reports, other related data and information from Insurer and professional stakeholders of insurance on a quarterly basis; analyze and present the findings to the company duly, and issue directive, recommendation and binding notice to ensure remedial actions and implementation of applicable legislation and regulation are taken.
- 1.5 In accordance with legal status of Financial Regulatory Commission, the inspections on operations of the Insurer and professional stakeholders of insurance shall be done by the State inspector appointed by the Chairman of Commission within the timeframe set in the terms of reference.
- 1.6 State inspector shall resolve the complaints lodged by the professional stakeholder of insurance and Insurer under the full authority provided in the law and if it is beyond his/her given authority, then he/she shall address the issue to line management (senior inspector), members of the Commission (Senior inspectors) and Chairman of the Commission (State general inspector) for resolution.
- 1.7 The director of a department, in charge of inspection shall review the inspection being carried out on Insurer and professional stakeholders of insurance and assist in resolving the issue as required.

## **Two. Purpose and stages of inspection**

- 2.1 The purpose of inspection to be conducted on operations of insurance activities shall be to identify and deter any challenges faced by the Insurer and professional stakeholders of insurance and any violations of law, to prevent from potential risks, conclude on correctness and consistencies of financial statements and ensure financial stability and sufficiency of reserve fund are met.
- 2.2 The inspections shall be carried out in the following steps:
  - 2.2.1 Preparation or planning of inspection;
  - 2.2.2 Conduct inspection;
  - 2.2.3 Write a report on inspection and draw a conclusion;
  - 2.2.4 Ensure implementation of measures supposed to take upon inspection;
- 2.3 Preparation or planning of inspection shall consist of the following actions:
  - 2.3.1 terms of reference shall be approved by the Chairman of the Commission;
  - 2.3.2 State inspectors, registration state inspectors and directors of finance and economics registration department of aimag and district governors offices shall ensure to have copies of the laws on insurance, professional stakeholders of insurance and other applicable regulations, guidelines legislation that regulate the insurance relations, and other related materials, data and information (for instances: i.e comments, complaints, information published in the media with regard to illegal activities, binding notices given prior) before conducting inspection on insurance activities at site.
- 2.4 The step of conducting inspection shall consist of the following actions:
  - 2.4.1 State inspector shall present and deliver a copy of the approved terms of reference for inspection to be conducted on activities of the Insurer and professional stakeholders of insurance to the management of the company. The financial statements for required inspection period and required materials shall be obtained from the respective employees in charge of (the receipt shall be executed):
  - 2.4.2 Thoroughly inspect the materials that have been identified by an inspection as violated, clarify and list the violated materials, and copies of evidences shall be photocopied;
  - 2.4.3 Upon completion of inspection, shall execute a hand-over report for the financial documents used for inspection and give a copy to respective official.
- 2.5 Writing a report and drawing a conclusion step shall consist of the following actions:
  - 2.5.1 The inspection report shall reflect the legislations followed in each area of its operations, implementation of guidelines and regulations, identified violations, responsible person, actions that have taken, recommendations on actions to be taken following the inspection, binding notice and recommendations;

- 2.5.2 Based on the result of the inspection, subject the violator to administrative liability, ensure fulfillment, and provide binding notice to ensure remedial actions are taken within the timeline set forth;
- 2.5.3 In case the violation of legislation is identified, the violations shall be recorded and subjected to punishment, and it should clearly state about the provisions of legislations that have been violated, and damages to customers and individuals.
- 2.6 The inspection report shall include the following surveys:
  - 2.6.1 revenues of insurance activities, build up and expenditures of paid in capital and reserve fund,
  - 2.6.2 Compensations given to the Insured and estimations; compilation of respective documentations;
  - 2.6.3 whether the forms of insurance are authorized, whether types and forms of insurance that have been authorized are fully implemented;
  - 2.6.4 Bookkeeping and accounting records, issuance of financial statements and its correctness;
  - 2.6.5 If re-insurance contract is executed, then estimation of payment of premiums and income from charges (?);
  - 2.6.6 Estimation of Insurance premiums and charges paid by the Insured, including individuals and business entities;
  - 2.6.7 Expenditures of funds, account receivable and payables;
  - 2.6.8 Build up and expending of other revenues, its reflection in records;
  - 2.6.9 Insurance contracts executed with the Insured and implementation;
  - 2.6.10 If the insurance representatives got a permit from the Commission;
  - 2.6.11 Interactions with the Insurer and professional stakeholders of insurance;
  - 2.6.12 payment of regulatory service fees to the Commission;
  - 2.6.13 study and identify the incurred and potential losses and risks to Insurer and professional stakeholders of insurance;
  - 2.6.14 if the investment was made in accordance with regulations approved by the Commission; return on investment and liquidity;
  - 2.6.15 Other applicable matters;
- 2.7 The mission shall present and seek resolution from Committee's meeting to subject anybody, who failed to fulfill the binding notice, to legal liability and suspend its operation, fully or partially, as required and revoke or cancel the license.

### **Three. Inspection methodology and form**

- 3.1 On-site inspection shall either be planned or thematic:
  - 3.1.1 Planned/routine inspection shall be done in accordance with the terms of reference and evaluate off-balance account, business plan and technical skills of management, financial status and solvency of the Insured and professional stakeholders of insurance and estimate the reserve fund in accordance with respective regulations;

- 3.1.2 During thematic inspection, the inspections can either be done in the area as specified in 3.2 of this regulation or combining few areas and when required shall inspect the founders of particular company and if the company is under investigation of competent authority (in case it is a combined inspection to be done together with state specialized inspection agency and other professional agency, then the terms of reference shall be incorporated).
- 3.2 The remedial actions for any violations and deficiency identified during inspection shall be taken and if it has criminal nature, the issue shall be addressed to competent authority for resolution upon obtaining consent from the State general inspector of the Commission.
- 3.3 The progress and results of the inspections shall be presented to the Inspected, and related guidelines and recommendations, followed by required actions shall be taken duly and ensure implementations of actions recommended by the inspection are in place.
- 3.4 The mission leader shall consolidate the final conclusion of planned and thematic inspections and the conclusion shall reflect the nature, risks rates of operations, shared property and economic situation of the Insurer and professional stakeholder of insurance.
- 3.5 When evaluating the operations and financial status of the Insurer and professional stakeholder of insurance, the following considerations shall be taken into account to conclude on sufficiency of its equity, profitability, sensitivity of risks and management skills and to identify if the reserve fund was properly established:
  - 3.5.1 if the operations had been run under the applicable legislation, regulations and procedures;
  - 3.5.2 if the company sustained financial stability and risk-free operations;
  - 3.5.3 indicators of efficient financial structures; and
  - 3.5.4 estimation of solvency.

#### **Four. Independent audit**

- 4.1 The inspector shall focus on the following when doing inspection on whether the financial statements, of Insurer and professional stakeholder of insurance, were audited by an auditing firm:
  - 4.1.1 if the auditor was an independent from the Insurer and professional stakeholder of insurance;
  - 4.1.2 if the annual financial statements of Insurer and professional stakeholder of insurance were certified and audited by an auditor, and whether those audited financial statements and documents were sealed by personal stamp, whether the director of an auditing firm signed and stamped on the conclusion drawn by an auditor.
- 4.2 If the recommendations and corrective transactions to be made to financial statement of Insurer and professional stakeholder of insurance were given during the audit, it shall inspect the implementation and reflect it in the conclusion of the inspection report.

- 4.3 If the inspection identifies that the financial statement, which was obviously incorrect and with mistakes, were audited and certified by an auditing firm, it shall take required actions including notifying the relevant authority by giving a written notice.

#### **Five. Duties and obligations of the inspector**

- 5.1 State inspector shall identify potential risks that may come up during inspection, present to and inform the head of the respective department, conduct inspection within the timeframe set forth and at high quality, and any violations and deficiencies identified shall be reflected in the report using the evidence and facts.
- 5.2 State inspector shall be liable for any liabilities that may arise in connection with inspection done at Insurer and professional stakeholder of insurance.
- 5.3 Mission leader shall organize the team to perform the inspection within the timeline set forth and effectively and when required shall present the progress and results of the inspection and amendment to terms of reference to the Chairman of Commission for resolution.
- 5.4 The mission leader shall present the terms of reference and members of the team to the management of the Insurer and professional stakeholder of insurance and duly commence the inspection and within 7 days of completion of inspection the findings/results shall be presented by the Director of its department and then presented and signed by the management of the Company.
- 5.5 State inspector shall present the reply to the Insurer upon reviewing and drawing a conclusion on the financial statements provided by the Insurer and professional stakeholder of insurance on a quarterly basis, to the Director for his approval and sends it back to the Company by the end of the following month of each quarter. The reply to the financial statements of Insurer and professional stakeholder of insurance shall not have any reference to measures that have taken for this company.
- 5.6 In case the Insurer and professional stakeholder of insurance have made the violation and deficiency first time and the violation is considered to be serious by the state inspector, it shall be presented to the director of its department. The director of the respective department shall present the issue within 1 business day to the Chairman of the Commission and mission leader upon clarification of the comments made by the state inspector.
- 5.7 The mission shall write a consolidated report on inspection by items ascribed in terms of reference and draft a recommendation on actions to be taken and if required it shall present the recommendation to the Commission's meeting for resolution within 7 business days of completion of the inspection.
- 5.8 The mission leader shall act while exercising its full authority of state inspector; any payment, violations and deficiencies shall be identified and recorded and take corrective actions and transactions immediately during the inspection.
- 5.9 If the State inspector views the violation by the Insurer and professional stakeholder of insurance is deemed to be serious or repetitive and it is potential or had adverse impact on the operations of a company, then it shall write and present an introduction of a company to the Chairman of the Commission and mission leader.

- 5.10 The introduction as defined in 5.10 of this regulation shall reflect the following:
- 5.11.1 how long and how often the particular violations of applicable legislation have occurred;
  - 5.11.2 detailed information on corrective measures that have taken in connection with this violation;
  - 5.11.3 the impacts or potential impacts of the violation and deficiency on the financial status and solvency of the Insurer, and
  - 5.11.4 recommendation on corrective actions to be taken;

### **Six. Liabilities of violators**

- 6.1 In case the violated acts are not subject to criminal offense, then it shall be subject to administrative liabilities as stipulated in the laws on insurance, professional stakeholders of insurance, license to run business operations, advertisement and marketing and other applicable legislations.