



# IAIS

INTERNATIONAL ASSOCIATION OF  
INSURANCE SUPERVISORS

PUBLIC

## **Detailed Assessment of Observance**

## **IAIS Insurance Core Principles (ICPs)**

## **Morocco**

**June 2020**

### **About the IAIS**

The International Association of Insurance Supervisors (IAIS) is a voluntary membership organisation of insurance supervisors and regulators from more than 200 jurisdictions. The mission of the IAIS is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

Established in 1994, the IAIS is the international standard setting body responsible for developing principles, standards and other supporting material for the supervision of the insurance sector and assisting in their implementation. The IAIS also provides a forum for Members to share their experiences and understanding of insurance supervision and insurance markets.

The IAIS coordinates its work with other international financial policymakers and associations of supervisors or regulators, and assists in shaping financial systems globally. In particular, the IAIS is a member of the Financial Stability Board (FSB), member of the Standards Advisory Council of the International Accounting Standards Board (IASB), and partner in the Access to Insurance Initiative (A2ii). In recognition of its collective expertise, the IAIS also is routinely called upon by the G20 leaders and other international standard setting bodies for input on insurance issues as well as on issues related to the regulation and supervision of the global financial sector.

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## Acronyms

<b>ACAPS</b>	Autorité de Contrôle des Assurances et de la Prévoyance
<b>ALM</b>	Asset and Liability Management
<b>AMMC</b>	Autorité Marocaine du Marché des Capitaux
<b>AML/CFT</b>	Anti-Money Laundering and Countering Financing of Terrorism
<b>CCSRs</b>	Comité de Coordination et de Surveillance des Risques Systémiques
<b>EU</b>	European Union
<b>ERM</b>	Enterprise Risk Management
<b>GC</b>	General Circular
<b>GDP</b>	Gross Domestic Product
<b>IAIS</b>	International Association of Insurance Supervisors
<b>ICP</b>	Insurance Core Principle
<b>IFRS</b>	International Financial Reporting Standards
<b>IMF</b>	International Monetary Fund
<b>MOCE</b>	Margin Over Current Estimate
<b>Mn.</b>	Million
<b>MOU</b>	Memorandum of Understanding
<b>MMOU</b>	IAIS Multilateral MOU on Cooperation and Information Exchange
<b>ORSA</b>	Own Risk and Solvency Assessment
<b>SBR</b>	Solvabilité Basée Sur Les Risques

**TPs**      Technical Provisions

## Executive summary

**1. Morocco's insurance sector has grown very rapidly in recent years.** The sector is currently the world's 51<sup>st</sup> largest in terms of gross premiums written and the second largest market in Africa, after South Africa. It is also one of the fastest growing markets in the Arab world. Gross premiums written during 2018 were 43.4 billion Moroccan Dirhams (MAD) and have grown at an average annual rate of nine % since 2006. Insurance companies also play a very important role as key institutional investors in the Moroccan economy. Insurance sector assets account for approximately 19 % of the country's GDP.

**2. During the last ten years, the government of Morocco has taken significant steps to develop the insurance sector and improve insurance supervision.** Law 64-12, which came into effect in 2016, established the Supervisory Authority of Insurance and Social Welfare (Autorité de Contrôle des Assurances et de la Prévoyance (ACAPS)), as an independent authority in charge of the supervision of the insurance industry. Protection of policyholders became one of its key missions. The requirements for insurance supervision were consolidated and unified into a single document with the publication of a General Circular (GC), and recruitment and training helped ensure that the supervisory staff is well trained and effective.

**3. The Authority has also begun a number of major change projects to modernise supervisory programmes and lay the foundation at a much higher level of ICP Observance for future sector growth.** Some of these include:

- **A Risk-Based Solvency Project (SBR):** A draft circular is under development which aims to review the solvency provisions that insurance and reinsurance companies are subject to and move towards a new prudential framework structured around three Solvency II style pillars:
  - Pillar I: Quantitative requirements;
  - Pillar II: Qualitative requirements including governance requirements; and
  - Pillar III: Public disclosure and reporting to the Authority.
- **A More Risk-Based Supervisory Framework:** ACAPS is exploring the implementation of a new approach for supervision of the insurance industry, based on risk.
- **Takaful Insurance:** A legal framework for Takaful insurance and reinsurance has been put in place by the Authority. It defines the concept of Takaful and introduces the fundamental

principles governing the operations of this type of insurance. Regulatory texts for this framework are in the final stages before publication.

- **Anti-Money Laundering and Countering Financing of Terrorism (AML-CFT):** significant strengthening of AML-CFT requirements applied to insurers and intermediaries was introduced in the Authority's circular on due diligence and internal control requirements for insurance and reinsurance companies and insurance intermediaries (n°AS/02/19). This circular was published in the official bulletin on December 12, 2019.
- **Conduct of Business Supervision:** Improvements are planned for conduct of business requirements for insurers and intermediaries and for the supervisory programmes in these areas.
- **Catastrophic Risk:** A new catastrophic risk coverage framework covering natural disasters and violent actions (eg terrorism, riots) has been developed and was implemented on January 1<sup>st</sup> 2019. The regulatory texts of Catastrophic Risk were published in the official bulletin on 30<sup>th</sup> December 2019.
- **Additional Compulsory Insurance Requirements:** Implementation of new mandatory insurance requirements in the construction sector is planned (eg homeowner's protection insurance, builder's liability insurance).

**4. Significant regulatory and supervisory challenges remain, however, and will need to be addressed if Morocco is to successfully deliver these projects and move toward higher levels of compliance with international supervisory standards.** In regard to ICPs 1-3, Morocco has made significant progress in improving the independence, accountability and authority of the supervisor. While most of the standards are well addressed, additional improvements should be considered. Examples include:

- Clarifying the objectives of insurance supervision in the primary legislation so that the maintenance of a fair, safe and stable insurance sector for the benefit and protection of consumers is understood to be the primary objective of insurance supervision;
- Establishing clearer processes in legislation for the appointment and removal of the Authority's Board members, President and General Secretary, including a requirement that the reasons for removal of the President or Board members be publicly disclosed;



- Establishment of a detailed Code of Conduct for ACAPS employees, covering areas like potential conflict of interest and acceptable standards of conduct in carrying out their duties. Development of this code is already well underway. Procedures to ensure the proper implementation of the code should also be developed;
- Signing the IAIS MMOU on information sharing.

**5. Licensing, suitability, and control requirements under ICPs 4-6, while generally effective, should be further strengthened. Specific recommendations include:**

- Publishing a clear and reasonable timeframe for the review of licensing applications;
- Establishing competency and integrity requirements for all persons heading insurer control functions;
- Developing and publishing more specific minimum competency requirements for directors, and officers of insurance companies, including members of insurer audit committees;
- Amending the definition of control that is used to identify the significant owners of insurance companies so that it fully meets ICP 6 requirements; and
- Establishing ongoing suitability requirements for significant owners and ensuring that the significant real person owners of each insurer are identified as part of licensing processes. In the event that an insurer cannot identify such owners, the authority should have the power to reject licensing applications.

**6. In regard to ICPs 7 and 8, insurer governance and internal control requirements must be significantly strengthened.** ACAPS should develop and enforce more specific requirements for insurer corporate governance and internal controls to more closely mirror the requirements of the ICPs. Development of some requirements is underway. These should be supplemented to ensure that all the standards of ICP 7 are well addressed. In addition, the requirements for risk management and internal control systems should be strengthened and four distinct control functions should be established. In conjunction with strengthening governance and internal control requirements, specific Enterprise Risk Management (ERM) requirements (ICP 16) should be developed and implemented (eg Own Risk Solvency Assessment (ORSA) requirements, and ERM process) on an individual entity and group basis. ACAPS is aware of these deficiencies and is moving to address them as part of its risk based solvency project (SBR).

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7. **It is particularly important that stronger governance and internal control requirements be implemented before other pillars of the new prudential framework.** Strong governance and internal controls provide the foundation on which the new prudential framework can be built.
8. **On ICP 9 (Supervisory Review and Reporting), the ACAPS supervisory framework is largely a compliance-based rather than a risk-based framework as required by the ICP.** ACAPS should develop and document a more risk-based supervisory framework and establish an implementation plan to introduce it over time. It is recommended that, in developing the supervisory model, ACAPS consider risk-based approaches in other jurisdictions and their appropriateness to the Moroccan market. Implementation will require careful planning, stakeholder consultation, and most importantly activities to engage and train supervisory staff. Development of an overarching supervisory framework document that sets out the principles, concepts and core processes that the supervisor intends to use in carrying out this task may be a useful first step to facilitate consultations and to help engage staff.
9. **It is also worth noting that a new supervisory framework should be in place to enable a smoother transition to SBR.** Without its implementation, the transition to a Solvency II style capital framework may be onerous and confusing for both the industry and supervisory staff. Industry staff may feel that it is being held to two standards (old and new) while supervisory staff grapple with the implementation of the new requirements.
10. **On ICPs 10 (Pre-emptive and Corrective Powers) and ICP 11 (Enforcement), ACAPS is quite strong.** ACAPS should, however, consider supplementing its enforcement powers with more pre-emptive powers such as the power to issue legally enforceable directives (or a similar enforcement mechanism) if, in the opinion of the supervisor, an insurer is pursuing a course of conduct that puts the interests of policyholders and beneficiaries at risk but that has not yet resulted in a clear regulatory contravention. In addition, consideration should be given to supplementing penalty provisions with strong penalties for individuals who obstruct ACAPS officials in the conduct of their supervisory work.
11. **On ICP 12 (Winding-up and Exit from the Market), the legislation does not specify the point at which it is no longer permissible for an insurer to continue its business.** Such a clear point is necessary to protect policyholders when insurers fail. It is recommended that the legislation

be amended at the next opportunity to clearly establish a point below which it is no longer permissible for an insurer to continue to operate.

On valuation and capital requirements under ICP 14 and 17, significant work is required. As part of its plans to move towards a Solvency II prudential framework, the authorities should continue their work towards a risk-based capital measure that includes a greater range of risks. They should also strengthen valuation requirements and reserving practices in line with international standards, particularly the inclusion of a Margin Over Current Estimate (MOCE) and cash flow discounting. It is recommended that ACAPS consider developing a plan to move towards International Financial Reporting Standards (IFRS) accounting standards for entities reporting on a consolidated basis (similar to the requirement for banks). ACAPS is aware of these deficiencies and is moving to address them as part of its risk-based solvency project.

**12. On ICP 15 (Investments) some of the investments limits applicable as diversification and dispersion requirements, particularly those related to equities, need a review. These limits are a serious risk to the market. Major recommendations include:**

- Reduce limits applicable as diversification and dispersion requirements related to equities. This may be a challenge given the Moroccan capital markets' lack of depth and limited range of instruments;
- Consider making the objectives of the investment requirements explicit in the legislation, for example through the addition of a dedicated article explaining the goal of these requirements in Chapter II, Section III of the GC;
- Make amendments to legislation establishing explicit rules and requirements to address the security and liquidity of insurers' investments; and
- Consider establishing a general requirement that insurers only invest in assets whose risks they can properly assess and manage.

**13. With regard to insurance intermediaries and conduct of business requirements under ICP 18 and 19 and disclosure requirements under ICP 20, licencing requirements are generally strong but conduct of business requirements to ensure fair treatment of consumers require significant strengthening, as do requirements or information disclosure by insurers and intermediaries. ACAPS is attempting to address some of these deficiencies through proposed**

revisions to Book V of the Insurance Code (law 17-99) but additional changes are advisable including, for example, the development of a Codes of Business Conduct for insurers and insurance brokers operating in the market, which mirrors the ICP standards.

**14. With respect to ICP 21 and 22, which deal with countering insurance fraud and dealing with AML-CFT risk, ACAPS should continue to increase its knowledge in both of these operational risk areas.** More detailed requirements with respect to prevention, detection, recording and reporting fraud risk should be considered, as should additional resources for the AML-CFT area. The assessors were encouraged by recent changes to the AML-CFT system, but as many of the requirements are new and have not been fully implemented, it is not presently possible to determine whether they will be sufficient to fully address past deficiencies.

**15. On ICPs 23 to 26, which deal with group supervision, macroprudential framework, supervisory cooperation and coordination, and cross border crises, significant additional work is required** to meet international standards including the development of a group supervisory framework, a more fulsome macroprudential framework and additional initiatives to strengthen supervisory cooperation and crisis management.

**16. Additional recommendations and observations are identified throughout the body of the report.** Sequencing and implementation of acceptable recommendations should be considered within the context of a multi-year transition plan for the sector (eg three to five years). Such a plan should include regular and appropriate consultation with the industry and should be focused at increasing the efficiency of supervision without inordinately increasing administrative burden and cost. Delivery of such plan should help to increase consumer confidence and trust in the sector while also laying a strong foundation for its future.

## Assessment of Insurance Core Principles

### A. Introduction and Scope

**17. This document provides a detailed assessment of supervision in the insurance sector of the Kingdom of Morocco.** The assessment was conducted by a team of assessors from several jurisdictions. The team included: Charles Michael Grist, Insurance Regulation and Supervision Consultant; Rogier Derksen, IAIS Secretariat; François Tempé, Autorité de Contrôle Prudentiel et

de Résolution (ACPR), France; Taryk Bennani, ACPR, France; Arnauld Defonotam, ACPR, France; Christina Hernandez, Gibraltar Financial Services Commission; and Jérôme Bourtembourg, National Bank of Belgium (NBB).

**18. The assessment was conducted between September and January 2020, on behalf of the International Association of Insurance Supervisors (IAIS).** The assessment is benchmarked against the Insurance Core Principles (ICPs) issued by the IAIS in October 2011, including revisions authorised until November 2018. The ICPs apply to all insurers, whether private or government controlled, in all markets. Specific principles apply to the supervision of intermediaries.

**19. The assessment was undertaken as part of a pilot project by the IAIS at the request of ACAPS.** The objectives of the assessment were to enhance understanding of the ICPs and aid in their implementation, to identify major differences between existing practices and the international standards as well as to provide recommendations and advice to help future development of supervisory programmes. The assessment should not be construed to be part of the International Monetary Fund (IMF) / World Bank Financial Sector Assessment programme.

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## B. Information and Methodology Used for Assessment

### 20. The level of observance for each ICP reflects the assessment against the standard.

Each ICP is rated in terms of the level of observance as follows:

- **Observed:** where all the standards are observed except for those that are considered not applicable. For a standard to be considered observed, the supervisor must have the legal authority to perform its tasks and exercise this authority to a satisfactory level;
- **Largely observed:** where only minor shortcomings exist, which do not raise any concerns about the authority's ability to achieve full observance;
- **Partly observed:** where, despite progress, the shortcomings are sufficient to raise doubts about the authority's ability to achieve observance; and
- **Not observed:** where no substantive progress toward observance has been achieved.

**21. The assessment is based solely on the laws, regulations, and other supervisory practices in place at the time of the assessment in the fall of 2019.** While the assessment does not reflect on-going regulatory initiatives, some key proposals are discussed by way of additional comments in this report. The authorities have provided a self-assessment, supported by examples of actual supervisory practices and assessments related to entities (the identities of which have not been disclosed). These examples enhanced the robustness of the work. Technical discussions with, and briefings by, officials from ACAPS have also enriched discussions of this report, as did discussions with industry participants, professional associations, consumer groups and other government and supervisory authorities. Discussions with these stakeholders were conducted on a confidential basis, without the presence of government or supervisory authorities.

### C. Preconditions for Effective Insurance Supervision:

#### Sound and Sustainable Macroeconomic and Financial Sector Policies:

**22. The Kingdom of Morocco is the fifth largest African economy by GDP.** The World Economic Forum placed Morocco as the most competitive economy in North Africa, in the 2017 edition of its African Competitiveness Report. The Moroccan economy has witnessed a positive economic growth since the beginning of the millennium. This performance reflects progressive improvement of the Morocco's economy's resilience. Real economic growth over the last five years is described in Table 7. In 2018, Real Gross Domestic Product (GDP) increased by 3 % in 2018 down from 4.2% the previous year, largely due to a decline in the Moroccan agricultural sector growth rate.

**Table 7: Macroeconomic Growth**

	2014	2015	2016	2017	2018
<b>Real GDP Growth (%)</b>	2.70	4.50	1.10	4.20	3.0

**23. The Moroccan financial system has also grown in size and complexity.** The banking sector's assets were approximately 121% of GDP in 2018. The banking system is concentrated and major Moroccan banking groups operate throughout the region. The Insurance industry's total assets were 19.2% of GDP in 2018. The insurance sector is moderately concentrated and the market, as a whole, displays a high level of solvency using current measures (see above). Pension savings accounted 27.7% of GDP.

#### A Well-Developed Public Infrastructure:

**24. The legal, regulatory, and oversight framework for the financial sector has witnessed major upgrades in recent years. Initiatives include:**

- A new banking law was adopted in 2014 and a project on the new status of the central bank (Bank Al Maghrib) was published in the Official Bulletin on 15<sup>th</sup> July 2019;

- ACAPS law was adopted in 2014 and entered into force in 2016; and
- AMMC law was adopted in 2013 and entered into force in 2016.

As previously mentioned, Morocco also has a Committee for Coordination and Surveillance of Systemic Risks (CCSRS) provided for in article 108 of the banking law No. 103-12 to deal with systemic risks and stability issues.

**25. Morocco has an intricate legal system (described above).** Access to the courts is said to be relatively easy but court action can be expensive for litigants. Lawyers do not work on a contingency basis and are not allowed to advertise. There is said to be a low level of claims-consciousness and litigiousness in Moroccan society, except in relation to motor cases and work accidents. In the past, the International Commission of Jurists, a Geneva based non-governmental organisation, has expressed concerns about the independence of the judiciary from the executive arm of government. The justice sector has witnessed significant reforms since 2011: The new constitution of 2011 reserves one chapter for the judiciary, which is presented in article 107 as ‘independent of the legislative power and the executive power’. It established also the Supreme Judicial Council. In April 2017, the powers of the Minister of Justice were transferred to the Attorney General of the Court of Cassation in his capacity as President of the public prosecution.

#### **Accounting, Auditing, and Actuarial Standards:**

**26. The main accounting and audit provisions for Morocco’s insurers are established in Law No. 17-95 on public limited companies, Law No. 5-89 regulating the profession of public accountancy and Law No. 5-96 on limited liability companies.** Most major international audit firms have subsidiaries or branches operating in Morocco.

**27. The National Accounting Council is the body responsible for developing accounting standards, including those related to insurance.** With regard to audit standards, the Moroccan Order of Chartered Accountants is responsible. Adjustments to standards are made after consultation with ACAPS. The insurance accounting standards are adopted through an order from the Minister of Finance.



**28. Most insurers are not currently required to implement IFRS on a consolidated basis.** Currently, only insurers listed on the Casablanca Stock Exchange (two companies) are required to report using IFRS. The other insurers use Moroccan GAAP.

**29. External Audit is compulsory for both joint stock insurers and mutual insurers.** The audit must be conducted by two external auditors who reviews financial statements and related documents to certify that they are accurate. The accounts must be certified every six months.

**30. Morocco has an Actuarial Association since 1998.** The Association is an associate member of the International Association of Actuaries (IAA). The association has approximately 110 individual members. The principal duties of the Association are:

- Maintaining the Index of Member Actuaries;
- Support for actuary training in Morocco;
- Orientation, promotion and arrangement of professional development for member actuaries;
- Establishment and monitoring of ethics codes and procedural standards;
- Representation of the profession to the public authorities;
- Distribution of the professional standards, texts and ethics code; and
- Notification and promotion of the AMA's activities, debates, discussions, publications and decisions related to actuarial science.

**31. The actuarial profession in Morocco is experiencing significant growth and development.** All Moroccan insurers have actuaries in management positions and in actuarial departments. There is an actuarial programme in a local educational institute. Actuaries operating in the Moroccan market do not require the approval of the Insurance Supervisory Authority.

#### **Mechanisms for Effective Consumer Protection:**

**32. The Law No. 31-08 in force since March 2011, establishes general consumer protection rules applicable to all products and services including insurance.** These rules are intended to provide protection for consumer information, protection against unfair terms, misleading advertising and distance contracts. This law also sets out the principle that the consumer must have at its disposal necessary information to make a rational choice in view of its needs and means.

**33. Article 166 of the Moroccan Constitution provides for the Competition Council (Conseil de la concurrence).** The council's mission is to ensure transparency and fairness in the relations, particularly through the analysis and regulation of market competition, the control of anti-competitive practices, unfair commercial practices and economic concentration and monopoly operations.

**34. Morocco also has an insurance mediator as a key component of the consumer protection system.** The mediator may deal with cases involving any member of the Moroccan insurance federation where the amount of the dispute is at least 5,000 MAD. The mediator's opinion is binding on the insurer if the amount does not exceed 50,000 MAD. The insurance mediator was established in 2015 after the signing of the "Charte de la Médiation en Assurances" between the Directorate of Insurance and Social Welfare within the Ministry of Finance (former ACAPS) and the Moroccan Association of Insurance and Reinsurance Companies (Fédération Marocaine des Sociétés d'Assurances et de Réassurance – FMSAR). The objective was to put in place a mechanism enabling policyholders and third parties to benefit from a fast and free alternative to the conventional dispute resolution process with insurance and reinsurance companies.

**35. Morocco also has a general compensation scheme in the event of insurer insolvency.** The purpose of the "Fonds de Solidarité des Assurances (FSA)" is to give financial assistance and grant subsidies for insurance companies in difficulty. The fund was established pursuant to Article 39 of the Dahir Law No. 1.84.7. The FSA gives financial assistance and/or grants to insurance undertakings that may be provided in the following circumstances (provided for in articles 263, 264 and 269 of the Insurance Code):

- Imbalance in an insurance or reinsurance company's financial situation resulting from one or more of the categories of compulsory insurance operations (after approval of the company's recovery plan by ACAPS);

- In the case of an automatic transfer of the company's portfolio to another licensed firm, a grant is granted and is intended to cover all or part of the insufficiency of the ceding company's assets; and
- A subsidy to a liquidated insurance company to cover all or part of the insufficiency of assets relating to the categories of compulsory insurance (in the case that there has been a total withdrawal of a license).

The FSA is financed mainly by the proceeds of a tax on insurance contracts, contribution from insurance companies set at 10 % of the total annual expenses of the FSA, and surplus of assets resulting from the liquidation of insurance and reinsurance companies.

#### **Access to Efficient Financial Markets:**

**36. Morocco maintains a system of foreign exchange controls managed by the Foreign Exchange Office (Office des Changes).** The Moroccan Dirham trades within a 2.5 % band of a reference rate currently weighted at 60 % to the Euro and 40 % to the U.S. dollar. Capital and commercial transactions denominated in a foreign currency require the authorisation of the Foreign Exchange Office. The Moroccan Dirham is not freely convertible.

**37. For foreign investors and under the Moroccan investment code, the repatriation of both invested capital and profits is allowed, provided that the initial capital investment was filed and registered appropriately.** In the insurance sector, the regulation has clearly defined the eligible hedging assets that insurance and reinsurance companies can invest in (cf. Section III of Chapter II of the GC N°01/AS/19 starting from article 36). Insurers may also access international markets with certain limitations (5 % of total assets) and after ACAPS authorisation (cf. article 164 of the insurance code). Morocco has a well-established investment and securities infrastructure ranging from investment banks, brokerage firms, asset managers, to custody service. Morocco also hosts a number of subsidiaries of international Banks.

## D. Assessment Summary Tables

38. Table 8 summarises the observance of the ICPs arising from this assessment.

**Table 8: Summary of Observance with the ICPs**

Insurance Core Principle	Level	Overall Comments
<b>1 - Objectives, Powers and Responsibilities of the Supervisor</b>	<b>LO</b>	<p>The authority responsible for insurance supervision is clearly defined in primary legislation, has broad powers to carry out its responsibilities, and has the power to propose additional regulatory requirements.</p> <p>As currently written, however, the objectives of insurance supervision and their priority should be stated in a more clear and transparent manner.</p>
<b>2 - Supervisor</b>	<b>LO</b>	<p>While many of the ICP standards are well addressed, adherence to ICP requirements could be improved in a few areas, particularly with respect to a requirement to disclose the reasons for removal of Board members and the President.</p>
<b>3 - Information Exchange and Confidentiality Requirements</b>	<b>LO</b>	<p>Largely Observed is mainly based on the observation that ACAPS presently has limited ability to exchange confidential information with a foreign authority if an MOU with the authority is not in place.</p>
<b>4 - Licensing</b>	<b>LO</b>	<p>Largely Observed is primarily based on the observation that ACAPS does not presently establish a clear and reasonable timeframe for the review of licensing applications.</p>
<b>5 - Suitability of Persons</b>	<b>PO</b>	<p>Partly Observed is based on the observations that ACAPS does not presently have competency and integrity requirements for all persons heading insurer control functions; and ACAPS does not presently have ongoing suitability requirements for significant owners of insurers.</p>

<b>6 - Changes in Control and Portfolio Transfers</b>	<b>LO</b>	Largely Observed is based on the observation that the definition of control used by the authority does not fully meet the requirements of ICP 6.1.
<b>7 - Corporate Governance</b>	<b>PO</b>	Partly Observed is based on the observation that current governance requirements fall significantly short the requirements of the ICP.
<b>8 - Risk Management and Internal Controls</b>	<b>PO</b>	<p>The ICP requires insurers to have an effective internal control system and an effective risk management system. While many of the elements of an effective control system are in place, there are weaknesses in the requirements for an effective risk management system.</p> <p>In addition, the ICP requires insurers to have four effective internal control functions: compliance, actuarial and risk management and internal audit. At present, there is only a requirement for an internal audit function.</p>
<b>9 - Supervisory Review and Reporting</b>	<b>LO</b>	<p>Largely observed is based on the observations that:</p> <ul style="list-style-type: none"> <li>• While ACAPS appears to have a broad-based supervisory system, it does not have a risk-based supervisory system; and</li> <li>• The framework has weaknesses with respect to supervision of insurance groups and conduct of business risk.</li> </ul>
<b>10 - Preventative and Corrective Measures</b>	<b>LO</b>	Largely Observed is based on the observation that ACAPS has a significant range of enforcement powers that allow for escalation of action in the event of regulatory contraventions. Consideration should, however, be given to supplementing its pre-emptive powers, particularly when it transitions to risk-based supervision.
<b>11 - Enforcement</b>	<b>LO</b>	Largely Observed is based on the observation that ACAPS has strong powers to enforce corrective action. Consideration should be given to supplementing these powers with strong penalties for individuals who obstruct ACAPS officials in the conduct of their work.

<b>12 - Winding-up and Exit from the Market</b>	<b>LO</b>	Largely Observed is based on the observation that the legislation does not specify a clear specific point at which it is no longer permissible for an insurer to continue its business.
<b>13 - Reinsurance and Other Forms of Risk Transfer</b>	<b>LO</b>	Largely Observed is primarily based on the observation that ACAPs does not consider the supervision performed in the jurisdiction of the reinsurer in reviewing reinsurance plans of insurers, as required by ICP 13.4.
<b>14 - Valuation</b>	<b>PO</b>	<p>Partly Observed is based on the following observations:</p> <ul style="list-style-type: none"> <li>• The valuation of assets and liabilities is not consistent with an economic valuation and does not reflect the risk-adjusted present values of their cash flows;</li> <li>• A total balance sheet approach is not in place for solvency purposes, that accounts for the interdependence between assets, liabilities, regulatory capital requirements and capital resources; and</li> <li>• The Insurance Code and GC specifies the rules and requirements regarding TPs, but the current standards do not provide for the inclusion of MOCE.</li> </ul>
<b>15 - Investment</b>	<b>PO</b>	<p>Partly Observed is based on the following observations:</p> <ul style="list-style-type: none"> <li>• The supervisor establishes transparent qualitative and quantitative rules and requirements applicable to the investment activities of the insurers, including for more complex asset classes; however, the objectives pursued in establishing those requirements are not explicitly stated by the supervisor;</li> <li>• The GC specifies explicitly the rules and requirements regarding the diversification and dispersion applicable to the insurers' investments but the requirements addressing the security and liquidity are only implicit;</li> <li>• Some limits applicable as diversification and dispersion requirements appear to be high. For example, it is technically possible that</li> </ul>

		<p>investments in equities reach 60 % of the TPs. In 2018, equities represented almost 49 % of the total investments of insurers. The prudence of such high equity limit is a significant concern. Another example: 12.5 % of the total reduced assets representing TPs can be invested in assets issued by a non-bank non-insurer making public offerings;</p> <ul style="list-style-type: none"> <li>• Apart from a list of eligible assets and the fact that assets not in this list are subject to the supervisor's approval, there are no specific provisions to require that the insurers invest only in assets whose risks they can properly assess and manage. More generally, the current rule-based regulatory framework could disincentivize insurers from developing effective internal risk management systems and designing investment strategies suited to their risk-profiles.</li> </ul>
<b>16 - Enterprise Risk Management for Solvency Purposes</b>	<b>PO</b>	<p>Partly Observed is based on the observation that major components of an Enterprise Risk management system such as ORSA have not yet been implemented.</p>
<b>17 - Capital Adequacy</b>	<b>PO</b>	<p>Partly Observed is based on the following observations:</p> <ul style="list-style-type: none"> <li>• The current solvency approach follows a Solvency I type approach and is not risk-based. It is not a total balance sheet approach as it does not account for the interdependence between assets, liabilities, regulatory capital requirements and capital resources for determining the solvency requirements.</li> <li>• No solvency requirements are established at a group level;</li> <li>• The capital requirement does not address all relevant and material categories of risk as for example market risk;</li> <li>• The regulation does not establish criteria for assessing the quality and adequacy of capital resources but lists the capital elements accepted to cover the solvency margin;</li> <li>• The degree of urgency to restore compliance with the PCR appears overly generous (i.e. three years) and the level of MCR may be too low (33 %) to provide an effective ultimate safety net for</li> </ul>

		<p>the protection of the interests of policyholders; and</p> <ul style="list-style-type: none"> <li>As a result, it is not clear that the existing regulatory capital requirements are calibrated so that in adversity an insurer's obligations to policy holders will be fully met.</li> </ul>
<b>18 - Intermediaries</b>	<b>LO</b>	Largely Observed is primarily based on the observation that disclosure requirements for intermediaries are not sufficient to meet the requirements of the ICP.
<b>19 - Conduct of Business</b>	<b>PO</b>	Partly Observed is based on the observation that current requirements with respect to conduct of business do not meet many of the standards of the ICP (as noted above). ACAPS is aware of these deficiencies and is working to address them through revisions to Book IV of the insurance Code (Law 17-99) and other initiatives.
<b>20 - Public Disclosure</b>	<b>PO</b>	Partly Observed is based largely on the observation that current requirements do not encompass disclosure of the full range of information required by the ICP.
<b>21 - Countering Fraud in Insurance</b>	<b>PO</b>	Partly Observed is based on the observation that knowledge and requirements with respect to fraud risk should be significantly improved.
<b>22 - Anti-Money Laundering and Combating the Financing of Terrorism</b>	<b>LO</b>	Largely Observed is based on the observation that while ACAPS has significantly increased its focus on AML-CFT and recently instituted significant changes to its AML-CFT programme, it is too early to determine, whether these measures will fully address the significant deficiencies identified in this area in the past.
<b>23 - Group-wide Supervision</b>	<b>NO</b>	Not Observed is based on the observation that the current legislation does not provide for the definition of an insurance group, nor does it include a framework for the supervision of insurance groups.
<b>24 - Macroprudential Surveillance and Insurance Supervision</b>	<b>PO</b>	Partly Observed is based on the following observations:



		<ul style="list-style-type: none"> <li>• Even though aggregate macroprudential indicators have been established for the insurance sector, thematic and horizontal reviews across the sector do not yet exist;</li> <li>• The identification of systemically important insurers has not yet implemented;</li> <li>• In case systemic risk materialises, there is currently no macroprudential early intervention measures available in the supervisory toolkit of ACAPS; and</li> <li>• A recovery and resolution framework is not yet in place.</li> </ul>
<b>25 - Supervisory Cooperation and Coordination</b>	<b>PO</b>	<p>Partly Observed is based on the following observations:</p> <ul style="list-style-type: none"> <li>• ACAPS has concluded agreements with supervisors from foreign jurisdictions;</li> <li>• ACAPS is member of the Committee for Coordination and Surveillance of Systemic Risks (CCSRs) where it cooperates and coordinates with other relevant supervisors and authorities;</li> <li>• ACAPS participated in the supervisory college organised by South Africa; and</li> <li>• Cooperation and coordination on group supervision cannot be established as no group supervisory framework currently exists.</li> </ul>
<b>26 - Cross-border Cooperation and Coordination on Crisis Management</b>	<b>PO</b>	<p>Partly Observed is based on the observation that the current regulatory framework for the insurance sector contains only a few of the elements required for effective cross border Cooperation and coordination on crisis management.</p>

**39. Table 9 provides a summary of the level of observance.**

***Table 9: Morocco: Summary of Observance Level***

	Observed (O)	0	
	Largely Observed (LO)	12	
	Partly Observed (PO)	13	
	Not Observed (NO)	1	
	<b>Total</b>	<b>26</b>	

**40. Table 10 lists suggested steps for improvement of the level of observance.** Some of these steps reflect actions that are already in progress but are yet to be made fully operational.

<b>Table 10: Morocco: Recommendations to Improve Observance of ICPs</b>	
<b>Insurance Core Principle</b>	<b>Recommendations</b>
<b>1 - Objectives, Powers and Responsibilities of the Supervisor</b>	It is recommended that the primary legislation be amended at their next opportunity to clarify the objectives of insurance supervision and include the maintenance of a fair, safe and stable insurance sector for the benefit and protection of consumers as the primary objective of insurance supervision.
<b>2 - Supervisor</b>	<p>Consideration should be given to:</p> <ul style="list-style-type: none"> <li>Establishing in legislation that the reasons for removal of the President or Board members be publicly disclosed.</li> <li>Establishing more robust conflict of interest policies and procedures dealing with perceived, potential and actual conflict of interest;</li> <li>Implementing a detailed Code of Conduct for ACAPS employees covering areas like perceived, potential and actual conflict of interest and acceptable standards of conduct for employees in carrying out their duties. Procedures to ensure the Code is appropriately applied should also be developed; and</li> <li>Developing and implementing a Whistleblower policy.</li> </ul>

<b>3 - Information Exchange and Confidentiality Requirements</b>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS work towards becoming a MMoU signatory;</li> <li>• ACAPS implement a procedure to ensure that all parties who they exchange information with are subject to the same confidentiality terms;</li> <li>• The legislation provides for the exchange of information with supervisors in other countries and jurisdictions, where a MoU is not already in place; and</li> <li>• ACAPS consider implementing procedures for information sharing with other authorities, such as the tax office.</li> </ul>
<b>4 - Licensing</b>	<p>It is recommended that ACAPS establish a clear and reasonable timeframe for the review of licensing applications and make it available to applicants.</p>
<b>5 - Suitability of Persons</b>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS continue with its plans to establish competency and integrity requirements for all persons heading insurer control functions;</li> <li>• Consideration be given to developing and publishing more specific minimum competency requirements for directors, and officers of insurance companies, including members of insurer audit committees; and</li> <li>• ACAPS establish ongoing suitability requirements for significant owners of insurers.</li> </ul>
<b>6 - Changes in Control and Portfolio Transfers</b>	<p>It is recommended that ACAPs amend the definition of control to fully meet the requirements of the ICP at its earliest convenience.</p>
<b>7 - Corporate Governance</b>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• As part of its transition to a more risk-based supervisory system, ACAPS should establish stronger corporate governance requirements for insurers that more closely mirror the requirements of the ICP;</li> <li>• ACAPs reviewing and shortening the rotation period for external auditors;</li> <li>• ACAPs requiring external auditors to certify the annual solvency statement; and</li> <li>• Establish a general obligation for insurers to immediately report any information they receive which could materially</li> </ul>

	impact the financial position of the insurer or interests of policyholders and beneficiaries, to the supervisor.
<b>8 - Risk Management and Internal Controls</b>	<p>It is recommended that the authorities:</p> <ul style="list-style-type: none"> <li>• look to strengthen requirements for both the internal control and risk management systems; and</li> <li>• require the establishment of all four internal control functions with the authority, independence and resources required by the ICP.</li> </ul> <p>Our understanding is that these requirements are consistent with ACAPS current proposed direction in developing the SBR project.</p>
<b>9 - Supervisory Review and Reporting</b>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS develop and document a risk-based supervisory framework and that it establish an implementation plan to introduce it over time.</li> </ul> <p>Implementation will require careful planning, stakeholder consultation, activities to engage supervisory staff and provide necessary training. Development of an overarching supervisory framework document may be a useful first step to facilitate consultations and to help engage staff;</p> <ul style="list-style-type: none"> <li>• ACAPS along with other financial sector regulators in Morocco, develop an appropriate group supervision framework (see ICP 23); and</li> <li>• ACAPS consider ways to supplement its approach to Conduct of Business supervision (eg thematic reviews) so that it is more pre-emptively focused on Conduct of Business risk rather than dealing with contravention of regulatory requirements.</li> </ul>
<b>10 - Corrective and Preventative Action</b>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS consider supplementing its enforcement powers with more pre-emptive powers such as the power to issue legally enforceable directives (or a similar enforcement mechanism) if in the opinion of the supervisor an insurer is pursuing a course of conduct which puts the interests of policy holders and beneficiaries at risk but which has not yet resulted in a clear regulatory contravention;</li> </ul>

	<ul style="list-style-type: none"> <li>• ACAPS consider developing a written protocol for the handling of unlicensed insurance activity issues within the organisation;</li> <li>• The fines levels for unauthorised insurance activity be reviewed with a view to their effectiveness as a deterrent in the market; and</li> <li>• As part of its transition towards a risk-based supervisory framework, consideration be given to developing and publishing a formal ladder of intervention.</li> </ul>
<b>11 - Enforcement</b>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• Consideration be given to supplementing ACAPS enforcement powers with strong penalties for individuals who obstruct ACAPS officials in the conduct of their work; and</li> <li>• ACAPS consider developing guidelines for consideration of disciplinary matters for the Disciplinary Commission to ensure that similar contraventions are treated in a similar manner and to ensure greater transparency in the use of enforcement powers.</li> </ul>
<b>12 - Winding-up and Exit from the Market</b>	<p>It is recommended that the legislation be amended to clearly establish a point at which it is no longer permissible for an insurer to continue to operate. This could perhaps be tied to plans to establish a more risk-based solvency requirement for insurers and the establishment of a Prescribed Capital Requirement and a Minimum Capital requirement for insurers.</p>
<b>13 - Reinsurance and Other Forms of Risk Transfer</b>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS consider the supervision performed in the jurisdiction of the reinsurer in reviewing reinsurance plans of insurers. The legislation does not specifically provide for the monitoring of the reinsurer's jurisdictional supervision where the reinsurance is purchased across borders;</li> <li>• ACAPS consider including provisions in the regulations for other types of risk transfer as there could be future demand and this would need to be regulated; and</li> <li>• ACAPS consider formalising how they assess whether insurance companies are placing risks in an 'optimal' manner within the local market.</li> </ul>

<b>14 - Valuation</b>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS develop a plan to incrementally move towards higher level of compliance with the ICP standards over time. Such a plan might include defining dedicated requirements for the valuation of assets and liabilities for solvency purposes following an economic valuation;</li> <li>• ACAPS established requirements at group level for the valuation of assets and liabilities for solvency purposes; and</li> <li>• ACAPS conduct an analysis of the relevance of the French mortality tables to the Moroccan market and allows insurers to adjust their mortality tables to their portfolio.</li> </ul>
<b>15 - Investment</b>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• consideration be given to making the objectives of the requirements explicit in the legislation, for example through the addition of a dedicated article explaining the goal of these requirements (risk management, policyholders' protection) in Chapter II, Section III of the GC;</li> <li>• amendments be made to legislation establishing explicit rules and requirements to address the security and liquidity of insurers' investments. In the GC, Chapter II, Section III, subsection IV deals with diversification and dispersion requirements. In the same vein, additional subsections could be added to make explicit reference to possible requirements aiming at addressing the security and liquidity aspects of the investments (eg minimum proportion of sovereign bonds, highly tradable assets, minimum ratings, etc.);</li> <li>• some of the limits applicable as diversification and dispersion requirements, particularly those related to equities, be reduced. This may be a challenge given the Moroccan capital markets' lack of depth and limited range of issuers;</li> <li>• consideration be given to establishing a general requirement that insurers only invest in assets whose risks they can properly assess and manage; and</li> <li>• ACAPS continue to develop, complete and implement the SBR project which will enable insurers to move from the current rule-based system to a risk-based framework and will in particular stimulate the implementation of effective internal risk management by insurers.</li> </ul>

<b>16 - Enterprise Risk Management for Solvency Purposes</b>	It is recommended that in conjunction with strengthening governance and internal control requirements, specific Enterprise Risk Management (ERM) requirements be developed and introduced including ORSA and ERM process for individual entities and groups.
<b>17 - Capital Adequacy</b>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS continues its efforts toward a regulatory capital requirement that set a sufficient level of protection so that, in adversity, an insurer's obligations to policyholders continue to be met as they fall due. The implementation of the risk-based solvency project under development goes in that direction; and</li> <li>• ACAPS set a higher level of MCR in order to provide an effective ultimate safety net for the protection of the interests of policyholders.</li> </ul>
<b>18 - Intermediaries</b>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS strengthen the disclosure requirements on intermediaries to be more consistent with the requirements of Standard 18.5;</li> <li>• ACAPS continue to review its policy regarding branch expansions and examinations; and</li> <li>• ACAPS continue its work to ensure that future supervisory activities on intermediaries are more risk focused.</li> </ul>
<b>19 - Conduct of Business</b>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS continue with current initiatives to strengthen Conduct of Business requirements; and</li> <li>• ACAPS consider developing overarching Codes of Business Conduct for insurers and for insurance brokers.</li> </ul>
<b>20 - Public Disclosure</b>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• The Authority proceed with the development of the Pillar III requirements and include the obligation for the disclosure of the quantitative and qualitative information that is required within ICP 20.2 to ICP 20.8; and</li> <li>• The Authority consider including the requirement for insurance companies to publish information in relation to market conduct that would benefit and protect</li> </ul>

	consumers, including how the firm handles claims, as well as complaints.
<b>21 - Countering Fraud in Insurance</b>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• More detailed requirements with respect to prevention, detection, recording and reporting fraud risk be considered, particularly with respect to insurance intermediaries;</li> <li>• ACAPS work to increase its understanding of the fraud risk over time. Additional training for staff and industry on fraud risk be considered, including areas like the potential of cyber-fraud; and</li> <li>• ACAPS encourage the industry and insurance federation to expand their public information activities to make the public more aware of the impact of fraud on the cost of insurance for policyholders.</li> </ul>
<b>22 - Anti-Money Laundering and Combating the Financing of Terrorism</b>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS continue to implement its action plan;</li> <li>• ACAPS work to address anomalies in the system such as the timeliness of reporting on the nature and characteristics of Suspicious Transactions Reports;</li> <li>• Supervisory resources for AML-CFT within the authority be increased and training programmes for ACAPS staff and industry on AML-CFT be maintained; and</li> <li>• The entire framework be periodically reviewed in the future to ensure it meets its intended objectives.</li> </ul>
<b>23 - Group-wide Supervision</b>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPs develop a framework for supervision of insurance groups along with other affected supervisors; and</li> <li>• In addition, ACAPS review its powers to control risk and capital transfer between members of financial groups.</li> </ul>
<b>24 - Macroprudential Surveillance and Insurance Supervision</b>	<p>It is recommended that ACAPS:</p> <ul style="list-style-type: none"> <li>• finalise the development of the Macroprudential framework for identifying systemically important insurers and to include it in amendments of the Insurance Code;</li> <li>• finalise the development of the recovery and resolution frameworks and to include them in the amendments of the Insurance Code. In particular, consideration should be given to clarifying the conditions and scope of action</li> </ul>



	<p>between the existing recovery planning mechanism in the Insurance Code and the one envisaged in the draft amendment;</p> <ul style="list-style-type: none"> <li>• finalise the development of a toolkit of macroprudential early intervention measures, such as an enhanced supervisory framework for systemically important insurers or the power for authorities to intervene in certain circumstances (for example, the possibility to impose restrictions on lapses for life-insurance contracts) and to include this toolkit in the amendment of the Insurance Code;</li> <li>• give consideration to the future institutional arrangements and build a clear legislative and regulatory macroprudential framework which explicitly sets out the missions and powers of ACAPS in this respect, and how its missions and powers will be articulated with those of the CCSRS;</li> <li>• incorporate a macroprudential perspective into microprudential supervision; and</li> <li>• continue working on interconnections and contagion risk, both through a cross-sectoral and intra-sectoral perspective.</li> </ul>
<b>25 - Supervisory Cooperation and Coordination</b>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS consider establishing provisions on group supervision (see ICP 23); and</li> <li>• ACAPS consider establishing and participating in supervisory colleges for the groups headquartered in Morocco (see ICP 23).</li> </ul>
<b>26 - Cross-border Cooperation and Coordination on Crisis Management</b>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS and its foreign counterparts consider adding provisions regarding crisis management into existing MoUs;</li> <li>• the MoU signed in 2012 regarding crisis management be updated and that the mention to the “crisis committee” be deleted in the CCSRS’s Rules of procedure, since the CCSRS has become the relevant body for national crisis management;</li> <li>• consideration be given to clarifying the conditions and scope of action between the existing recovery planning mechanism in the Insurance Code and the one envisaged in the draft amendment (see ICP 24);</li> <li>• ACAPS develop crisis management tools and procedures, both at the national level, as part of the</li> </ul>

	<p>CCSRs, and at the international level, with its foreign counterparts, in case of a cross-border crisis;</p> <ul style="list-style-type: none"> <li>• ACAPS ask cross-border insurers (Moroccan groups with subsidiaries outside Morocco or Moroccan entities which are subsidiaries of foreign groups) to develop their own crisis management tools and procedures, to be used in a going- and gone-concern situations; and</li> <li>• ACAPS take advantage of the current revision of the Insurance Code to add specific provisions regarding cross-border recovery planning, crisis management and crisis resolution.</li> </ul>
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## Detailed Principle-by-principle Assessment

**Table 11: Detailed Assessment of Observance of the ICPs**

ICP 1	<b>Objectives, Powers and Responsibilities of the Supervisor</b>  The authority (or authorities) responsible for insurance supervision and the objectives of insurance supervision are clearly defined.
Description	<p>The Supervisory Authority for Insurance and Social Welfare (ACAPS) is the only authority responsible for regulation and supervision of solvency and conduct of business in Morocco's insurance sector. ACAPS is also responsible for regulation and supervision of private pensions.</p> <p>The Authority was established under Law No. 64-12 which came into force in April of 2016. Prior to that date, supervision of insurance was the responsibility of a department within the Ministry of Finance.</p> <p>The regulatory and supervisory requirements for insurance are primarily established under Law 17-99 and subordinate legislation. The Law establishes Morocco's insurance code which contains requirements for:</p> <ul style="list-style-type: none"> <li>• Insurance contracts;</li> <li>• Compulsory insurances;</li> <li>• Licensing operation and supervision of insurers and reinsurers;</li> <li>• Insurance distribution; and</li> <li>• Other miscellaneous provisions.</li> </ul> <p>Additional regulatory requirements were established under Law No. 59-13 which amended law 17-99 and set out general solvency principles,</p>

	<p>investment rules, transparency requirements and a framework for Takaful business.</p> <p>Furthermore, ACAPS has the ability to issue legally enforceable rules pursuant to Article 3 of Law No. 64-12. ACAPS also has the authority to propose draft legislation under Article 3 of Law No. 64-12.</p> <p>ACAPS objectives are described in Article 6 of Law 64-12 and include:</p> <ul style="list-style-type: none"> <li>• Working to develop insurance regulation and supervision and respect good practices therein;</li> <li>• Increasing awareness of insurance supervision activities;</li> <li>• Ensuring compliance by supervised entities with prudential and solvency rules issued under the Insurance Code and its implementing legislations; and</li> <li>• Ensuring compliance by the entities subject to its supervision with rules for the protection of policyholders, beneficiaries of insurance contracts and members.</li> </ul> <p>In addition, Article 243 of Law 17-99 specifies that supervision is exercised in the interest of policyholders, subscribers and beneficiaries of insurance contracts.</p>
Assessment	Largely observed.
Comments	<p>The authority responsible for insurance supervision is clearly defined in primary legislation, has broad powers to carry out its responsibilities, and has the power to propose additional regulatory requirements.</p> <p>As currently written, however, the objectives of insurance supervision and their priority should be stated in a more clear and transparent manner. For example, each of the objectives stated above appears to have the same priority and Article 6 of Law 64-12 appears to establish the primary objective of insurance supervision as “compliance with rules” rather than the protection of policyholders and beneficiaries.</p> <p>It is recommended that the authorities amend the primary legislation at their next opportunity to clarify the objectives of insurance supervision and include the maintenance of a fair, safe and stable insurance sector for the benefit and protection of consumers as the primary objective of insurance supervision.</p>

<b>ICP 2</b>	<p><b>Supervisor</b></p> <p>The supervisor, in the exercise of its functions and powers:</p> <ul style="list-style-type: none"> <li>• is operationally independent, accountable and transparent;</li> <li>• protects confidential information;</li> <li>• has appropriate legal protection;</li> <li>• has adequate resources; and</li> <li>• meets high professional standards.</li> </ul>
<p>Description</p>	<p>ACAPS governance structure is described in Law 64-12.</p> <p>There are two primary bodies responsible for ACAPS governance and administration. They are the ACAPS Board (or Counsel) and its President. The Board's responsibilities are described in Article 15 and include:</p> <ul style="list-style-type: none"> <li>• establishing the general policies of the authority;</li> <li>• approving its operating rules and procedures;</li> <li>• setting the regulatory fees for the of entities is supervises;</li> <li>• examining and approving the authority's annual report, its financial statements, its budget and any amendments made to budget during the financial year;</li> <li>• hiring the ACAPS auditor, setting the auditors remuneration and approving the annual report;</li> <li>• establishing rules on the acquisition, sale and exchange of real property;</li> <li>• establishing rules and procedures for the award of contracts subject to compliance with the fundamental principles laid down in the legislation and regulations relating to public contracts;</li> <li>• approving the rules and general scheme of remuneration, allowances and benefits of the authority's staff based on a proposal made by the President;</li> </ul>

	<ul style="list-style-type: none"> <li>• taking decisions on the granting of licenses for insurance and reinsurance; and</li> <li>• taking decisions concerning enforcement penalties based on the advice of the enforcement committee.</li> </ul> <p>There are three independent members appointed by decree after approval by Morocco's Council of Ministers and chosen for their insurance or pension's knowledge and four members chosen for their positions in Moroccan institutions. These include: The President of the Capital Markets Authority, The Director of Treasury and External Finance in the Ministry of Economy and Finance, a representative of the Court of Cassation and the President of ACAPS who chairs the Board. A representative of the government attends the board as "Government Commissioner" in an advisory capacity.</p> <p>The Board is supported in carrying out its work by a small Audit committee of two members which is chaired by an independent member of the authority.</p> <p>The President is also appointed by Royal Decree. His responsibilities are largely described in Article 15 of the law and include:</p> <ul style="list-style-type: none"> <li>• presiding over the Council, convening it and setting the agenda for its meetings;</li> <li>• issuing circulars necessary for the performance of the authorities work after obtaining the opinion of the regulatory committee (see below);</li> <li>• making decisions on certain types of penalties;</li> <li>• preparing the draft annual budget and amendments made to it during the financial year and drawing up the accounts of the authority;</li> <li>• defining and organising the functions of the Authority consistent with an organisation chart approved by the Council;</li> <li>• proposing the appointment of the directors to head ACAPs directorates for approval by the Board, and recruiting and appointing all other staff subject to regulations of the authority;</li> <li>• arranging for any acquisition, disposal or exchange of property approved by the Board;</li> <li>• approving agreements entered into by the authority;</li> </ul>
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	<ul style="list-style-type: none"> <li>• representing the authority in respect of third parties. He takes legal action, sues on its behalf and defends it. He also takes any enforcement measures and any precautionary measures he deems appropriate.</li> <li>• drawing up the draft Annual Report on the activities of the authority;</li> <li>• keeping the Board informed about the conduct of the activities of the authority and the realisation of its mission;</li> <li>• executing the deliberations of the Council; and</li> <li>• taking any decision necessary for the performance of the duties and functions conferred by law on the authority.</li> </ul> <p>The President is assisted in administration of the authority by a Secretary General who ensures coordination between ACAP departments, and exercises authority delegated to him/her by the President. The Secretary General is appointed by decree on a recommendation of the President. The Secretary General also acts for the President in the event of the latter's absence or incapacity, with the exception of his role as Chair of the Board. In the event of the President's absence, the Board members elect one of their members to preside over their meetings.</p> <p>ACAPS's governance bodies are supported by two advisory commissions: the Regulatory Commission and the Disciplinary Commission. The Regulatory Commission gives the President an advisory opinion on draft circulars and the draft legislative or regulatory provisions related to intervention. It also provides opinions on the applications for approval (eg licensing applications) submitted by insurance and reinsurance companies. The Disciplinary Commission is charged with giving the President an advisory opinion on certain sanctions and on recovery plans submitted by insurance companies. Both commissions are comprised of a broad representation of members from both within and outside of government.</p> <p>ACAPS also has a small internal audit department that reports to the Board through its Audit Committee. The internal audit department prepares and annual audit plan and prepares regular reports on the execution of the plan through the audit committee during the year. Major audit files prepared by the Internal Audit department are also reviewed by the Audit Committee.</p> <p>ACAPS has a staff of 154 organised into six directorates each headed by a director. They include:</p> <ul style="list-style-type: none"> <li>• Protection of Insured Parties – largely product monitoring and market conduct responsibilities;</li> </ul>
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	<ul style="list-style-type: none"> <li>• Insurance supervision – capital control and supervision responsibilities;</li> <li>• Insurance regulation and standardisation;</li> <li>• Social welfare – largely supervision of pensions and mutual organisations;</li> <li>• Support directorate – provides administrative services to other programmes; and</li> <li>• Communications and intergovernmental relations.</li> </ul> <p><b>Governance, Independence and Accountability:</b></p> <p>The Authority has a large degree of independence from government and is funded largely through fees on regulated entities. Its budget is approved by its Board. In 2018, 96 % of ACAPS revenue were drawn from insurance company contributions. Three % came from fines on supervised entities and one % came from financial revenue.</p> <p>The governance framework appears to be clear and to provide for delegation of executive decisions and for the rapid escalation of issues, if necessary. The authority's internal audit process appears to have a degree of independence and a broad mandate. There are significant internal governance procedures including rules and procedures around staffing, training, performance and remuneration, contracting, and procurement and an internal procedures manual and control structure.</p> <p>Regulatory requirements are clear and transparent and are publicly available on the supervisor's website and through the government Bulletin Official. Circulars are used to ensure there is a clear understanding of the Authority's expectations and to inform stakeholders of regulatory decisions. They are also reviewed regularly and review involves public consultation. This work is assisted by the role of the Regulatory Advisory Commission.</p> <p>ACAPS has recently introduced a publicly available Strategic Planning document and intends in the future to report on the progress of its strategic plan through its publicly available annual report on its operations to government. It also produces publicly available annual reports on the sectors it regulates every six months.</p> <p><b>Appointment and Dismissal Procedures:</b></p> <p>There is no requirement for the reasons for removal of the President or for removal of Board members to be publicly disclosed and the process of removal of non-independent Board members, the president, or the General</p>
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	<p>Secretary is not clearly defined. Elected members of the Board may only be removed if they are no longer capable of carrying out their responsibilities or if they have committed a significant crime.</p> <p>Policies and procedures regarding other staff are outlined in the Authority's Human Resource Framework and appear to be reasonable and consistent with those found in any well-run organisation.</p> <p><b>Appeal of Supervisory Decisions:</b></p> <p>Appeal of supervisory decisions is to the court system, more specifically the Rabat Administrative Court. An appeal does not stay an administrative decision, putting the interests of insureds at risk. The grounds for appeal are not limited and their acceptability is determined by the court.</p> <p><b>Confidentiality of information:</b></p> <p>The Law No. 64-12 establishing the Authority provides that all individuals who, in any capacity, participate in the administration, direction, management, control and auditing of the Authority, are obliged to maintain professional secrecy.</p> <p>The members of the Disciplinary Commission, the Regulatory Commission, the persons in charge, even exceptionally, of works relating to the supervision of the entities subject to the Authority's supervision and, more generally, any person called, in any capacity, to know or use information relating to these entities, are strictly bound by professional secrecy for all matters they become aware of, in whatever capacity, in accordance with and subject to the sanctions laid down by Article 446 of penal code of Morocco.</p> <p>While the requirements established in legislation are strong there is a paucity of administrative guidance as to the application of these requirements. ACAPS is aware of this issue and is in the process of developing a classification system for information in its possession.</p> <p><b>Legal Protection of Staff:</b></p> <p>Senior officials and employees of ACAPS are said to have protection from personal liability associated with the good faith exercise of their duties under the general principles of Moroccan labour law and the Law Governing obligations and Contracts. ACAPS has confirmed the level of protection against the ICP with an independent legal opinion.</p> <p>"Where senior officials and employees are pursued for actions taken in the course of their duties, they may not incur personal liability for actions taken and/or omissions made while discharging duties in good faith as long as a court's judgment states this absence of liability."</p>
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	<p>These provisions do not, however, provide the level of protection contemplated by ICP 2.10. Protection for staff involved in AML-CFT supervision are protected through Article 27 of Law 43-05 on Money Laundering which is consistent with the requirements of ICP 2.10.</p> <p><b>Code of Conduct and Conflict of Interest:</b></p> <p>Article 46 of Law 64-12 requires that the chairman, the members of the Board and members of the advisory commission on discipline shall not have positions in any entity subject to ACAPS supervision or perform any function in a professional association representing such entities. Similar requirements apply to ACAPS staff.</p> <p>Article 47 of Law 64-12 requires that during their term of office, the members of the Board, members of the disciplinary committee as well as the authority's staff, may not have a direct or indirect interest in entities subject to the supervision of the authority.</p> <p>As soon as any of these persons becomes aware of the existence of such an interest, they must declare it to the president of the authority. Who grants them a period of ninety (90) days to comply with this requirement, failing which he shall be deemed to have resigned?</p> <p>While these provisions cover some major aspects of conflict of interest, they do not cover all aspects, nor do they cover the areas of perceived or potential conflict of interest.</p> <p>ACAPS is presently developing a Code of Conduct for staff and guidance and procedures related to perceived, potential or actual conflict of interest. Some procedures may also be developed in the near future. All employees are however, required to swear an oath of office in taking on their responsibilities.</p> <p>At present, ACAPS does not have a policy or legislative provision dealing with Whistleblower protection.</p> <p><b>Adequacy of Resources and Outsourcing:</b></p> <p>ACAPS appears to have an adequate budget and staffing complement for the size of the regulated industry. The organisation has an annual human resource plan that involves an assessment of skills and experience against future needs. The organisation supports professional training and has a comprehensive annual training plan.</p> <p>ACAPS does not outsource supervisory functions but uses contractors for some supervisory needs. In such circumstances, contractors are subject to confidentiality requirements and the present conflict of interest requirements.</p>
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Assessment	Largely Observed
Comments	<p>While many of the ICP standards are well addressed, the independence, transparency and accountability of the supervisory organisation should be improved and made more consistent with international standards. Consideration should be given to the following to the following:</p> <ul style="list-style-type: none"> <li>• Requiring that the reasons for removal of the President or Board members be publicly disclosed.</li> <li>• Establishing more robust conflict of interest policies and procedures dealing with perceived, potential and actual conflict of interest.</li> <li>• Implementing a detailed Code of Conduct for ACAPS employees covering areas like perceived, potential and actual conflict of interest and acceptable standards of conduct for employees in carrying out their duties. Procedures to ensure the code is appropriately applied should also be developed.</li> <li>• Developing and implementing a Whistleblower policy; and</li> <li>• Improving separation of the authority from government by removing the Government representative from the Board. This would help improve the perception that ACAPS is an independent authority.</li> </ul>
ICP 3	<p><b>Information Exchange and Confidentiality Requirements</b></p> <p>The supervisor exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose and use requirements.</p>
Description	<p><b>Obtaining information from insurance and reinsurance companies</b></p> <p>Article 245 of Law No. 17-99 requires insurance and reinsurance companies to produce all financial statements, reports, tables and documents of a nature that would allow ACAPS to supervise the financial position of these entities, the progress of their operations, the issuance of insurance premiums or contributions, the settlement of claims, and the valuation of provisions within the form and timeframe detailed within the Authority's circular. The companies must communicate this financial and statistical data by each licensed business class.</p> <p>Article 245-1 also allows ACAPS to make information requests to the auditors of insurance and reinsurance companies, as long as the information is</p>

	<p>required to assist them in carrying out their supervisory duties. The Article also states that should auditors become aware of any information during their audit work that would concern the regulator, they should inform ACAPS straight away. This would include situations where the auditors have concerns over the entity's ability to continue carrying out its activities, where the entity appears to be violating the legislations or regulatory requirements, where the auditor's findings will lead to an increase in reserves, or where the auditor expects to be qualifying their opinion.</p> <p><b>Information exchange between ACAPS and external parties</b></p> <p>Where requests are not directed to a specific team or individual, they can be made through the ACAPS website and will go directly to the Communications team, who will then pass the request on to the relevant department. The ACAPS procedures manual (2017) details the steps that must be taken should ACAPS receive an information request and how these requests should be dealt with, on a case-by-case basis. Simple information requests, particularly from insureds or affiliates, are validated by the relevant department head. The individual responsible for validating the response will depend on the nature of the request, but this may require the intervention of the General Secretary, Director or President. The Communications team may also be required to support the relevant teams in their response.</p> <p>The procedures manual states the following steps to be taken once an information request is received:</p> <ul style="list-style-type: none"> <li>• First, the request will be examined by the relevant department and service heads;</li> <li>• These individuals will then be responsible for assessing and breaking down the response;</li> <li>• Based on the elements defined by the responsible individuals, the relevant team members will then analyse and process the information request. This may involve requesting the assistance of other teams or partners of the Authority;</li> <li>• The team members will be responsible for preparing a first draft response;</li> <li>• The draft is then submitted to the department head for review and validation. Review may also be required from the General Secretary, Director or President, depending on the nature of the request. Based on their review, they will make any necessary adjustments or queries;</li> <li>• Should the request relate to institutional information that must be in line with the Authority's communications policy and strategy, the communications activity management process is used. This is also</li> </ul>
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	<p>detailed within the manual and details the steps to be followed should support be required from the communications team; and</p> <ul style="list-style-type: none"> <li>• The department head is then responsible for disseminating the information.</li> </ul> <p>Article 5 of Law 64-12 states that the authority has the power to enter into bilateral or multilateral agreements with the responsible authorities in foreign jurisdiction in order to outline the conditions under which each party can transmit and receive information. Article 5 states that agreements between authorities will set out the conditions under which information can be exchanged. ACAPS currently has a Memorandum of Understanding (MoU) in place with the French Prudential Supervision and Resolution Authority (ACPR), the General Insurance Committee in Tunisia (CGA) and the Conférence Interafricaine des Marchés d'Assurance in South Africa (CIMA). These agreements specify the measures enabling the assessment of information requests on a case-by-case basis.</p> <p>The regulations do not include any provisions for the strict reciprocity of information exchange. The legislation does not detail the timeframes that authorities must adhere to when dealing with such requests, but the agreements in place between the authorities do include clauses to detail what authorities must do in the case of urgent requests.</p> <p>ACAPS is not currently a signatory of the IAIS Multilateral Memorandum of Understanding (MMoU). We understand that preliminary discussions have taken place for ACAPS to enrol in the MMoU project. ACAPS must meet certain criteria, which includes completing a rigorous assessment of the Authority's professional secrecy regime, before they can become a signatory. ACAPS needs to assess whether they have the appropriate provisions and procedures in place to protect the confidentiality of information before they can become a MMoU signatory. Should ACAPS therefore receive a request from a foreign jurisdiction at present, if a MoU is not in place, ACAPS may need to reject the request, as they may not be able to agree appropriate terms and conditions to ensure the safe and confidential sharing of information. According to ACAPS, they have had no confidential information requests from foreign jurisdictions since 2016 and have only shared confidential information with the ACPR during this time.</p> <p>In relation to anti-money laundering, ACAPS has a MoU in place with the "Unite de Traitement du renseignement Financier" (UTRF), which is an organisation in Morocco that combats money laundering and terrorist financing (see ICP 22). It is a financial intelligence unit, which is linked to Government. This MoU covers the arrangements in place between the two parties in relation to the terms and condition and information and document sharing. As for collaboration with the tax authorities, there is no specific provision in the law to detail the procedures in place for sharing information.</p>
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	<p>ACAPS has the ability to share information at a national level with other financial services authorities. ACAPS is a member of the Systematic Risk Surveillance Coordination Committee (CCSRS) established by Article 108 of Law No. 103-12 on Credit Institutions and Related Organisations. The committee is responsible for the macro prudential supervision of the financial sector within Morocco.</p> <p>As a member of this committee, ACAPS may exchange information with financial sector authorities within the country, notably with Bank-Al-Maghrib and the Moroccan Capital Markets Authority (AMMC). Article 111 of Law No. 103-12 allows members of the CCSRS to exchange information and documents necessary for them to fulfil their supervisory duties. The committee is also able to invite others to collaborate on missions where they are deemed able to offer their assistance. The CCSRS aims to coordinate the supervisory actions of its members and ensure that the supervisory bodies work together at a regulatory level.</p> <p>The internal regulations of the CCSRS set out the arrangements in place for the practical operation and coordination between the members of the committee as part of the macro prudential supervision of the finance sector. As part of the committee, members will communicate to each other on all regulatory texts that govern their respective fields and inform each other of the regulatory projects that are underway. This will allow members to review each other's work and share comments or questions. Together members can discuss and propose amendments to legislations and regulations with a view to harmonising the laws that are applicable to the institutions they supervise.</p> <p>Members of the CCSRS can exchange all information necessary to allow them to identify the groups that constitute a financial conglomerate and define a joint regulatory framework that is applicable to them. Members will also share information in order to assess which financial institutions are of systematic importance. All information shared by the Committee members is confidential and should only be used for the purposes set out by CCSRS.</p> <p>A Joint Circular draft of the Financial Sector Supervisory Authorities on Financial Conglomerates is also under development. The circular will define what a financial conglomerate is and will detail the supervisory procedures that should be adopted in relation to financial conglomerates. The intention is for the financial sector supervisors to meet two times a year and a joint report will be produced, which will include inputs from each of the supervisors. The circular is currently in the review phase, however discussions are currently ongoing as to how the approval process will work before the approved circular is sent to the finance ministry, as it is a joint circular that should be approved by the governing committees of each supervisor. The aim is to have a joint supervisory approach and for the supervisors to coordinate their work.</p> <p><b>Confidentiality of information</b></p>
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	<p>Article 49 of Law No. 64-12 states that all those who participate in the administration, direction, management, control and audit of the Authority are bound by professional confidentiality. Article 5 of the abovementioned law states that the conclusion of an information exchange agreement is only established with foreign bodies who carry out similar missions to those of ACAPS. This implies that information will not be exchanged with other bodies. However, there are no explicit provisions in the regulations for the confidentiality of parties participating in the exchange of information with ACAPS and agreements are dealt with on a case by case basis. Should ACAPS be unable to agree to appropriate confidentiality terms with the other party, they are not permitted to share the information requested.</p> <p>Where a MoU is in place with another jurisdiction, confidentiality terms will be incorporated into the agreement. For example, the agreement with CIMA specifically states that all information obtained by each authority is to be used only for the supervisory purpose stated in the information request or as required by law. Furthermore, the agreement states that all information obtained as a result of the agreement should remain confidential, except in some specified circumstances that are described in the agreement.</p> <p>An Authority may be legally required to disclose confidential information that it has received through an exchange. In such circumstances, they must take reasonable measures to protect the information short of violating the law. The agreement does require that the originator of the information exchanged be contacted and that their request be sought, before any information can be shared with other parties.</p>
Assessment	Largely Observed.
Comments	<p>Largely Observed is primarily based on the observation that ACAPs presently has limited ability to exchange confidential information with a foreign authority if a MOU with the authority is not in place.</p> <p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS work towards becoming a MMoU signatory.</li> <li>• ACAPS implement a procedure to ensure that all parties who they exchange information with are subject to the same confidentiality terms.</li> <li>• The legislation provides for the exchange of information with supervisors in other countries and jurisdictions, where a MoU is not already in place.</li> <li>• ACAPS consider implementing procedures for information sharing with other authorities, such as the tax office.</li> </ul>

<b>ICP 4</b>	<b>Licensing</b>  A legal entity which intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective and public, and be consistently applied.
Description	<p><b>Definitions, Prohibitions and Authority:</b></p> <p>Insurance activities and reinsurance activities are defined under Article 159 of Law 17-99. Article 6 of Circular No. 01/AS 2019 distinguishes 29 categories of insurance and reinsurance activities that require licensing. Article 161 of Law 17-99 requires that insurance and reinsurance undertakings only commence operations if they are authorised by ACAPS.</p> <p>Article 168 of Law 17-99 requires that the only permissible legal forms for insurers and reinsurers are public limited companies and mutual insurance companies established under Moroccan law. The only exceptions to this requirement are insurers authorised under an approved free trade agreement and insurance purchases authorised by ACAPS in certain exceptional circumstances such as:</p> <ul style="list-style-type: none"> <li>• policies held by foreign nationals residing in Morocco who with insurers outside of Morocco;</li> <li>• insurance related employee benefits offered by foreign owned employers with insurers outside of the country;</li> <li>• certain risks located outside the country and insured with licensed insurers in that country; and</li> <li>• risks that cannot be easily insured in the Moroccan market such as aviation and marine insurance.</li> </ul> <p>The combined effect of these provisions is that unauthorised insurance activities are prohibited. There provisions in the penal code that prohibit conduct of a business that is legally regulated without prior authorisation of the concerned Authority (Article 381 of the Penal Code)</p> <p><b>Licensing Process and Licensing Criteria for Insurers:</b></p> <p>Articles 7 and 8 of GC No 01/AS/19 describe the process and documents to be produced when an application for a license is filed by an applicant. This information includes:</p> <ul style="list-style-type: none"> <li>• a description of the governance of the undertaking including a list of shareholders and management and a copy of the company's articles;</li> </ul>

	<ul style="list-style-type: none"> <li>• the intended business activities of the insurer which includes the nature of the risks guaranteed;</li> <li>• the method of setting premiums;</li> <li>• the bases for calculating TPs;</li> <li>• the financial plan for the first five fiscal years;</li> <li>• the business plan based on proposed tariffs;</li> <li>• three-year prospective market study to assess the fund's investment.</li> <li>• Information to allow the assessment of integrity and competence of the insurer's officers and directors and information to allow assessment of the integrity and resources of the applicants significant owners (though this is not directly required for the heads of control functions); and</li> <li>• Information on group structure.</li> </ul> <p>The criteria for granting a license are described in Article 165 of the Law 17-99 and include:</p> <ul style="list-style-type: none"> <li>• the technical and financial resources proposed for the setting up of the insurance company and their suitability for the company's activity programme;</li> <li>• the reputation, qualifications and experience of those responsible for managing it;</li> <li>• the breakdown of its capital and the quality of the shareholders or, for the mutual companies, the methods of constitution of the establishment fund;</li> <li>• the economic and professional contribution that the company can make; and</li> <li>• the impact on stability and the competitive conditions of the market.</li> </ul> <p>The process of review of applications involves:</p> <ul style="list-style-type: none"> <li>• internal review by a panel of ACAPS staff;</li> <li>• review by the regulatory commission; and</li> <li>• approval by the Board of the authority.</li> </ul>
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	<p>Insurance licenses do not have a fixed term and specify the categories of insurance or reinsurance operations that the entity may engage in. Licenses can only be for life or non-life insurance, though licenses issued before 2006, authorising composite insurers, and may continue. The authority may, impose additional requirements or conditions on licenses and if an application is refused Article 165 requires that the reasons for the decision must be provided.</p> <p>The period for review of a licence application is not specified or communicated to the applicant but licensing decisions are published in the Government's Official Bulletin and a list of licenced insurers, including the categories of insurance they are authorise to conduct, is maintained on the ACAPS website.</p> <p>In the past ACAPS has seldom had reason to consult with foreign supervisors when dealing with licencing applications or when dealing with an insurer without a physical presence in Morocco.</p>
Assessment	Largely Observed
Comments	It is recommended that ACAPS establish a clear and reasonable timeframe for the review of licensing applications and make it available to applicants.
<b>ICP 5</b>	<p><b>Suitability of Persons</b></p> <p>The supervisor requires Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurer to be and remain suitable to fulfil their respective roles.</p>
Description	<p><b>Suitability of Board Members and Senior Management:</b></p> <p>Article 227 of Law 17-99 establishes the integrity requirements for “founders, heads, directors, managers or liquidators of insurance and reinsurance companies”. These people include the Chair of the Board of Directors, the Directors, Chief Executive Officer, the Deputy Chief Executive Officers, the Chair of the Management Board, and the members of the Management Board.</p> <p>A person may not hold one of the above positions if they have:</p> <ul style="list-style-type: none"> <li>• a record of certain criminal offences;</li> </ul>

	<ul style="list-style-type: none"> <li>• a conviction of a foreign exchange offence;</li> <li>• been the manager of an enterprise that was subject to judicial liquidation;</li> <li>• a record of certain offences under the insurance law;</li> <li>• a record of similar offences in a foreign country;</li> <li>• been subject to discipline by a regulated professional association; or</li> <li>• certain sanctions under the Anti-money Laundering legislation.</li> </ul> <p>In addition, Article 227-1 states that the Authority may, by a reasoned decision, object to the appointment of persons responsible for the management or direction of an insurance and reinsurance company, in particular when it considers that such persons do not possess honourability, qualifications and experience necessary for the performance of their duties.</p> <p>Article 6 of Circular No. 01/AS 2019 sets out the information that insurers must provide ACAPS on these people with the insurer's application for a licence and whenever there is a new appointment to one of the above noted positions. This information includes:</p> <ul style="list-style-type: none"> <li>• An extract from the criminal record of the person concerned or an anthropometric record, less than three months old, and a declaration on his honour stating that he has not been the subject of a sentence or one of the penalties mentioned in article 227 of the same law;</li> <li>• A detailed and updated curriculum vitae of the person concerned; and</li> <li>• Any other information requested by the Authority related to the appointment.</li> </ul> <p>ACAPs has 30 working days to object to new appointments.</p> <p>Article 100 of the circular establishes an additional requirement that insurers provide an annual update for officers, managers and directors on their continued adherence to the integrity requirements.</p> <p>While these provisions may indirectly capture some heads of insurer control functions, there are no specific integrity or competency requirements for such positions. ACAPs intends to address this deficiency through a new circular that will establish such requirements.</p>
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	<p>In addition, ACAPs does not currently have specific guidance on expected minimum competency requirements for the above noted positions, but looks at such issues on a case by case basis.</p> <p><b>Suitability of Significant Owners:</b></p> <p>Article 165 of Law No. 17-99 requires that the quality of shareholders should be taken into consideration when granting or refusing to grant an insurance licence.</p> <p>Article 7 (5) (g) of Circular No. 01/AS 2019 requires that the applicant provide documents proving the identity, domicile or residence of the direct shareholders (any more than 30 %). In addition, any natural or legal person holding 30% or more of the share capital or enabled to take effective control of the undertaking, must advise ACAPS if they have been the subject of an investigation or a professional, administrative or judicial procedure, and penalties or financial consequences resulting therefrom.</p> <p>Article 14 of the circular sets out the list of documents and information that must be provided with the request for a direct or an indirect takeover of more than 30% of the share capital or a change of majority used to assess the suitability of the shareholders (physical or legal persons) concerned by the transaction. These include information relating to the integrity and resources of real persons and information on the controlling interests and resources of legal persons.</p> <p>There is currently no requirement or process to ensure ongoing suitability of significant owners.</p> <p><b>Ability of the Supervisor to Act:</b></p> <p>Article 227 of Law 17-99 sets out a permanent requirement that no one may, in any capacity whatsoever, found, direct, administer, manage or liquidate an insurance and reinsurance companies if they have been convicted of an offence that draws into question their integrity.</p> <p>In addition, and pursuant to the terms of Article 279 of the Code, the Authority may impose disciplinary sanctions on any insurance and reinsurance company that does not comply with a term of the Insurance Code and the texts adopted for their application, depending on the severity of the breach, regardless of any potential criminal proceedings.</p>
Assessment	Partly Observed
Comments	It is recommended that:

	<ul style="list-style-type: none"> <li>• ACAPS continue with its plans to establish competency and integrity requirements for all persons heading insurer control functions;</li> <li>• Consideration be given to developing and publishing more specific minimum competency requirements for directors, and officers of insurance companies, including members of insurer audit committees;</li> </ul> <p>Such guidance would increase transparency of requirements and help to ensure that similar applications are treated in a consistent manner as well as ensure that candidates have appropriate technical competencies; and</p> <ul style="list-style-type: none"> <li>• ACAPS establish ongoing suitability requirements for significant real person owners of insurers.</li> </ul>
<b>ICP 6</b>	<p><b>Changes in Control and Portfolio Transfers</b></p> <p>Supervisory approval is required for proposals to acquire significant ownership or an interest in an insurer that results in that person (legal or natural), directly or indirectly, alone or with an associate, exercising control over the insurer. The same applies to portfolio transfers or mergers of insurers.</p>
Description	<p><b>Definition of Control:</b></p> <p>The definition of control is found in Article 144 of Law N0. 17-95 on public limited companies:</p> <p><i>“Article 144: A company is considered as controlling another:</i></p> <ul style="list-style-type: none"> <li>• <i>where it holds, directly or indirectly, a proportion of the capital conferring a majority of the voting rights in the general meetings of that company;</i></li> <li>• <i>where it alone has a majority of the voting rights in that company by virtue of an agreement concluded with other members or shareholders which is not contrary to the interests of the company,</i></li> <li>• <i>when it actually determines, through the voting rights it has, the decisions in the general meetings of that company”.</i></li> </ul> <p><i>It shall be presumed to exercise such control where it has, directly or indirectly, more than 40% of the voting rights and no other member or shareholder owns, directly or indirectly, more than 30% of those rights. Any interest of less than 10% held by a controlled corporation is considered to be held indirectly by the controlling Corporation.”</i></p>

	<p>While this definition meets some of the requirements for the definition of control found in ICP 6.1 it does not meet all of the requirements set out in the standard.</p> <p><b>Oversight and Enforcement of Requirements Related to Change of Control.</b></p> <p>Article 172 of the insurance law 17-99 requires prior approval by the Authority of:</p> <ul style="list-style-type: none"> <li>• any change of majority;</li> <li>• any transfer of more than ten % (10%) of the shares; and</li> <li>• any acquisition (<b>or sale</b>) of direct or indirect control greater than thirty % (30%) of the share capital.</li> </ul> <p>The documents required as part of an approval request are set out in Article 14 of Circular No. 01/AS/2019 and include information about the integrity and resources of the people making the acquisition similar to that required for significant owners.</p> <p>ACAPS must respond within thirty days of the date of receipt of the request. Reasons must be given for any refusal. The authority may prohibit the acquisition of shares or the taking of control of insurance and reinsurance undertakings where such operations are considered to be contrary to the public interest.</p> <p><b>Demutualisation and Conversion of Companies:</b></p> <p>Demutualisation has never occurred in Morocco and while the law does not specifically address demutualisation and conversion, Demutualisation could be accomplished by:</p> <ul style="list-style-type: none"> <li>• creation of a public limited company; and</li> <li>• portfolio transfer from the mutual insurance company to the public limited company (or vice versa).</li> </ul> <p>Both of these changes would require the approval of ACAPS Board under the licensing process described in ICP 4 and the portfolio transfer process described below. These processes would address:</p> <ul style="list-style-type: none"> <li>• financial condition of the insurer;</li> <li>• the ongoing expectations of policyholders; and</li> </ul>
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	<ul style="list-style-type: none"> <li>whether the proposed new organisation adequately protects current and future policyholders.</li> </ul> <p><b>Portfolio Transfers:</b></p> <p>Article 231 of Law No. 17-99 provides that insurance companies may, with the agreement of the Authority, transfer part or all of their portfolio of contracts with their rights and obligations to one or more other licensed companies. In addition, Article 232 of the same Law approves the transfer according to the conditions set out in Circular No. 1/AS/2019 if it is in the best interests of policyholders and beneficiaries of contracts.</p> <p>In addition, Article 19 of Circular No. 1/AS/19 sets out the documents to be included in the portfolio transfer application.</p> <p>The Authority agrees to the requested transfer when it considers in particular that the financial situation of the insurance and reinsurance companies concerned enables them to meet their respective commitments.</p>
Assessment	Largely Observed
Comments	<p>Largely Observed is based on the observation that the definition of control used by the authority does not fully meet the requirements of ICP 6.1.</p> <p>It is recommended that ACAPs amend the definition of control to fully meet the requirements of the ICP at its earliest convenience.</p>
<b>ICP 7</b>	<p><b>Corporate Governance</b></p> <p>The supervisor requires insurers to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer's business and adequately recognises and protects the interests of policyholders.</p>
Description	<p><b>Legal Framework:</b></p> <p>Currently, there are few specific corporate governance requirements established in the insurance law. The main corporate governance requirements applying to insurers include:</p>

	<ul style="list-style-type: none"> <li>• Article 39 of the Law No. 17-95 (Law on public limited companies) sets the minimum number of directors for a public limited company at 3 and the maximum at 12 (15 if the company is listed).</li> <li>• Article 69 of the Law No. 17-95 establishes the role of the Board in public limited companies and stipulates that for companies with a Board of Directors, the Board is vested with the broad powers to take all decisions in all circumstances in the fulfilment of its corporate purpose on behalf of the company, subject to its obligations to shareholders under the law.</li> <li>• Pursuant to Article 69, in order to avoid conflict of interest between the role of the Chair of the Board and his role as head of the general management of the company, the number of non-executive directors must be greater than that of executive directors.</li> <li>• Pursuant to Article 74 of Law 17-95, the Chair of the Board assumes the general direction of the company. On the proposal of the Chair, the Board may mandate one or more natural persons to assist the chair as chief executive officer (article 67).</li> <li>• Pursuant to Article 75, the managing directors are vested with the powers which the Board of Directors determines, on the proposal of the Chair.</li> <li>• Article 78 requires that in the case of a company with a management board and a supervisory board, management board carries out its duties under the supervision of the Supervisory Board.</li> <li>• Article 197 of the law 17-99 extends the same aforementioned provisions of the law on public limited companies to mutual insurance companies.</li> <li>• Article 194 of law 17-99 sets the minimum number of directors for a mutual insurance company at 6 and the maximum at 15.</li> <li>• Article 384 of Law No. 17-95 provides for imprisonment and fines for members of administrative bodies who, in bad faith, have: <ul style="list-style-type: none"> <li>○ Used the property or budget of the company, in a way they knew contrary to the economic interests of the company for personal purposes or to favour another company or a company in which they have an interest, directly or indirectly; and</li> <li>○ Used the powers they possessed in a way they knew was contrary to the economic interests of the company, for personal purposes or to favour another company or enterprise in which they have an interest, directly or indirectly.</li> </ul> </li> </ul>
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	<ul style="list-style-type: none"> <li>Article 239-2 of the Law No. 17-99 requires that insurance and reinsurance companies establish an internal control system for the identification, prevention, evaluation, management and monitoring of risks. The system must be approved by its Board of Directors or Supervisory Board, as the case may be.</li> <li>They must also put in place a governance system adapted to their activity which ensures sound and transparent management of these enterprises, clearly defines the decision-making process as well as the missions and responsibilities of the persons responsible for their management.</li> <li>The section also requires insurance and reinsurance undertakings to have an internal audit structure that reports to the Board of Directors or Supervisory Board to verify the effectiveness of the system of internal control.</li> <li>The internal control circular of August 26th, 2008 (Circular NO. DAPS/EA/08/11 specifies the responsibilities of the Board of Directors or Supervisory Board with respect to the internal control system and imposes in its Article 17 that "the levels of powers and responsibilities as well as the areas of intervention of the different operational units must be clearly defined and limited".</li> </ul> <p><b>Standard Adherence:</b></p> <ul style="list-style-type: none"> <li>Article 239-2 of law 17-99 and Article 17 of DAPS/EA/08/11 set out the general obligation to set up a governance system and establish the levels, powers and responsibilities and powers of intervention of different operational units. They do not, however, specifically promote the clear separation of the oversight function from management responsibilities nor do they clearly provide for oversight of the senior management of the insurer as required by ICP 7.1. The legislation does provide for a circular of the Authority to set out the terms and conditions of its application and ACAPS is working on a draft SBR circular to set further governance terms and conditions.</li> <li>Similarly, there is no specific requirement for the insurer's Board to set and oversee the implementation of the insurer's corporate culture, business objectives and strategies for achieving those objectives as required by ICP 7.2.</li> <li>While the law prescribes minimum and maximum numbers of directors for Board positions, there does not appear to be many specific obligations with respect to the mix of individuals selected for the Board, such as the number of independent directors, as required by ICP 7.3.</li> </ul>
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	<ul style="list-style-type: none"> <li>• In addition, while there are some requirements that Board members not use company property for personal interests or to exercise their responsibilities in a manner that is contrary to the interests of the company, they do not fully meet the requirements of ICP 7.4 which requires that the individual Board members also exercise independent judgement and objectivity in decision making, taking due account of the interests of the insurer and the policyholders.</li> <li>• Pursuant to Circular NO. DAPS/EA/08/11, the insurers' Board is required to approve and provide oversight of the internal control system which is consistent with the requirements of ICP 7.5, however, there is not a requirement that the insurer design and maintain a full risk management system which is also required by the ICP. While the internal control system requirements cover many of the elements of an effective risk management system they do not cover all of the elements (see ICP 8).</li> <li>• There is also no requirement for an insurer's Board to oversee an appropriate remuneration policy for Board, senior management, persons in charge of control functions, and other individuals. As required by ICP 7.6.</li> <li>• With respect to ICP 7.7, Articles 233-237-1 of the Law 17-99 require the company to keep accurate records. Among other things, each insurer must adhere to regulations covering the form and content of the accounting framework and of the summary statements including the balance sheet, the revenue and expenditure account, the statement of management balances, and the financing table. Each insurer and reinsurer must also have a manual describing their accounting system.</li> <li>• The accounting statements must be audited by two external auditors. The external auditors must certify whether the financial statements are true and fair and fairly present the results of the past financial year and the financial position and the company's assets at the year end. Law 17-95 requires that the Board prepare and present financial information to the shareholders meeting but there does not appear to be an explicit requirement for the Board to approve this information.</li> <li>• Pursuant to the ACAPS GC (No. 01/AS/19) summary statements and certain additional information provided in accordance with the chart of accounts for Insurance (Code Comptable des Assurances) along with the insurers balance sheet and income and expense statement, must be published along with the auditors' conclusions (Article 116 of the circular).</li> </ul>
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	<ul style="list-style-type: none"> <li>• In regard to solvency information, Article 239-1 of Law 17-99 requires that an annual solvency report to the supervisor be approved by the company's Board of Directors or Supervisory Board. These provisions are generally consistent with ICP 7.7. There is, however, no requirement for the External auditor to certify the solvency report, similar to the certification of the financial statements of the company.</li> <li>• There are several requirements regarding establishment of external auditors in the Companies Law and the Insurance Law. These include requirements relating to conditions for the appointment, incompatibilities, remuneration, powers, duties, liability, substitution, disqualification and revocation. These conditions are listed in the articles of the Law No. 17-95 on public limited companies in Articles 159, 160, 161 and 162. Presently the requirements regarding rotation of external auditors appear to be lengthy (three year term with a maximum of two, three year, renewals).</li> <li>• Article 172-1 of the Law 17-99 also provides that the external auditors are appointed by the insurance and reinsurance companies after the approval of the Authority. There are, however few details regarding the Boards responsibility for ongoing governance and oversight of the external audit process which is requires as part of ICP 7.8. There are also no apparent financial competency requirements for members of the Insurer's Audit Committee.</li> <li>• ICP 7.9 requires that the insurer's Board have systems and controls to ensure appropriate, timely and effective communications with the supervisor. While the insurance legislation in Morocco currently requires significant quantitative and qualitative reporting, and ACAPS consults extensively with the insurers it supervises, these requirements fall short of the systems envisaged under ICP 7.9. For example, there does not appear to be a general obligation for insurers to immediately report information which could materially impact the financial position of the insurer or which could have material impact on interests of policy holders and beneficiaries to the supervisor.</li> <li>• ICP 7.10 requires an insurer to ensure that Senior Management: <ul style="list-style-type: none"> <li>○ carries out the day-to-day operations of the insurer effectively and in accordance with the insurer's corporate culture, business objectives and strategies for achieving those objectives in line with the Insurer's long-term interests and viability.</li> <li>○ promotes sound risk management, compliance and fair treatment of customers;</li> </ul> </li> </ul>
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	<ul style="list-style-type: none"> <li>○ provides the Board with adequate and timely information to enable the Board to carry out its duties and functions including the monitoring and review of the performance and risk exposures of the insurer, and the performance of Senior Management; and</li> <li>○ maintains adequate and orderly records of the internal organisation.</li> <li>• ACAPS does assess the operations of the senior management and the Board through, for example, review of Board packages and minutes, and the internal control system requirements appear to be substantial, however, these practices do not appear to oblige the insurer to fully cover all the aspects of the standard (eg requiring management to promote fair treatment of consumers, for example) and are difficult to achieve without more specific governance standards.</li> <li>• Finally, while Article 239-2 of Law 17-99 requires that insurance and reinsurance companies set up an internal auditing structure, reporting directly to the Board, whose mission is to verify the effectiveness of the internal control system, There does not appear to be a requirement for the insurer to demonstrate the adequacy and effectiveness of its entire corporate governance framework as required by ICP 7.11.</li> </ul>
Assessment	Partly Observed
Comments	<p>As part of its transition to a more risk-based supervisory system, ACAPS should establish stronger corporate governance requirements for insurers that more closely mirror the requirements of the ICP.</p> <p>Risk-based supervisory systems such as Solvency II require a strong foundation of corporate governance and internal control. Establishment of a fuller requirements may help ensure the success of ACAPS' work in that direction.</p> <p>It is our understanding that ACAPS is aware of this issue and is currently working to strengthen the requirements through development of a draft consultation document. While the consultation document covers many of the ICP standards it does not cover all of the standards, particularly ICP 7.1-7.3.</p> <p>In addition, to strengthening governance requirements, ACAPS may wish to consider:</p> <ul style="list-style-type: none"> <li>○ Reviewing and shortening the rotation period for external; auditors;</li> <li>○ Requiring external auditors to certify the annual solvency statement; and</li> </ul>

	<ul style="list-style-type: none"> <li>Establishing a general obligation for insurers to immediately report any information they receive which could materially impact the financial position of the insurer or interests of policyholders and beneficiaries, to the supervisor.</li> </ul>
<b>ICP 8</b>	<p><b>Risk Management and Internal Controls</b></p> <p>The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters, and internal audit.</p>
Description	<p><b>Risk Management and Internal Control Systems:</b></p> <p>ICP 8.1 requires the insurer to establish and operate within an effective risk management system. The guidance to ICP 8 describes the elements of a risk management system which typically include:</p> <ul style="list-style-type: none"> <li>a clearly defined and well documented risk management strategy, which includes a clearly defined risk appetite and considers the insurer's overall business strategy and its business activities;</li> <li>relevant objectives, key principles and proper allocation of responsibilities for dealing with risk across the business areas and business units of the insurer;</li> <li>a documented process defining the Board approval required for any deviations from the risk management strategy or the risk appetite and for settling any major interpretation issues that may arise;</li> <li>appropriate documented policies that include a definition and categorization of material risks (by type) to which the insurer is exposed, and the levels of acceptable risk limits for each type of these risk. These policies describe the risk standards and the specific obligations of employees and the businesses in dealing with risk, including risk escalation and risk mitigation tools;</li> <li>suitable processes and tools (including stress testing and, where appropriate, models) for identifying, assessing, monitoring and reporting on risks. Such processes should also cover contingency planning;</li> <li>regular reviews of the risk management system (and its components) to help ensure that necessary modifications and improvements are identified and made in a timely manner;</li> </ul>

- appropriate attention to other matters set out in ICP 16 (Enterprise Risk Management for Solvency Purposes); and
- an effective risk management function.

ICP 8.2 requires the insurer to establish and operate within an effective system of internal controls. The guidance to ICP 8 describes the elements of an effective system of internal controls which typically includes:

- appropriate segregation of duties and controls;
- up-to-date policies regarding who can sign for or commit the insurer, and for what amounts, with corresponding controls, such as practice that key decisions should be taken at least by two persons and the practice of double or multiple signatures;
- appropriate controls for all key business processes and policies, including for major business decisions and transactions, critical IT functionalities, access to critical IT infrastructure by employees and related third parties, and important legal and regulatory obligations;
- policies on training in respect of controls, particularly for employees in positions of high trust or responsibility or involved in high risk activities;
- a centralised documented inventory of insurer-wide key processes and policies and of the controls in place in respect of such processes and policies;
- appropriate controls to provide reasonable assurance over the accuracy and completeness of the insurer's books, records, and accounts and over financial consolidation and reporting, including the reporting made to the insurer's supervisors;
- adequate and comprehensive internal financial, operational and compliance data, as well as external market information about events and conditions that are relevant to decision making. Information should be reliable, timely, accessible, and provided in a consistent format;
- information processes that cover all significant activities of the insurer, including contingency arrangements;
- effective channels of communication to ensure that all staff fully understand and adhere to the internal controls and their duties and responsibilities and that other relevant information is reaching the appropriate personnel;

- policies regarding escalation procedures;
- processes for regularly checking that the totality of all controls forms a coherent system and that this system works as intended; fits properly within the overall corporate governance structure of the insurer; and provides an element of risk control to complement the risk identification, risk assessment, and risk management activities of the insurer; and
- periodic testing and assessments (carried out by objective parties such as an internal or external auditor) to determine the adequacy, completeness and effectiveness of the internal controls system and its utility to the Board and Senior Management for controlling the operations of the insurer.

In Morocco, Article 239-2 of Law 17-99, introduces the obligation for insurers to set up an internal control system. The circular on internal control (Circular No. DAPS/EA/08/11 published in 2008) details the requirements of this system. The control system includes some of the elements of an effective risk management system (such as requirements related to identifying, preventing, evaluating, managing and monitoring risks). but it does not include all the elements of an effective risk management system such as:

- a clearly defined and well documented risk management strategy that includes a clearly defined risk appetite;
- a documented process defining the Board approval required for any deviations from the risk management strategy or the risk appetite, and for settling any major interpretation issues that may arise; and
- appropriate documented policies that include a definition and categorisation of material risks (by type) to which the insurer is exposed, and the levels of acceptable risk limits for each type of these risk.

Similarly, while the requirements for the control system cover many of the elements of an effective control system, it do not appear that they cover all of those elements including, for example, processes for regularly checking that the totality of all controls forms a coherent system and that this system works as intended.

#### **Control Functions:**

Article 239-2 of the Law 17-99 requires insurers to have an internal auditing structure reporting directly to the Board of Directors or the Supervisory Board, whose mission is to verify (among other things) the effectiveness of the internal control system.

The Internal Control Circular (DAPS/EA/08/11) requires that the Head of Internal Audit to report on the implementation of his duties to the Board of Directors or the Supervisory Board. The report focuses annually on 8 specific points:

- the objectives, methodology, position and general organisation of internal control within the undertaking; the measures taken to ensure the independence and effectiveness of internal control, and in particular the competence and experience of the teams responsible for implementing it, and the action taken on the recommendations of the persons or bodies responsible for internal control;
- procedures for verifying that the activities of the undertaking are carried out in accordance with the policies and strategies established by the governing bodies and procedures for verifying the compliance of insurance operations with laws and regulations;
- the methods used to measure and monitor investments, in particular with regard to the measurement of the quality of assets and asset-liability management;
- the internal control framework for the management of investments, which includes the internal division of responsibilities among the staff, the persons responsible for carrying out transactions not also responsible for their monitoring, the delegation of authority, the dissemination of information and the internal control or audit procedures;
- procedures and arrangements for identifying, assessing, managing and controlling risks related to the undertaking's liabilities and for holding sufficient capital for those risks;
- the methods used to verify the conformity of risk acceptance and pricing practices, reinsurance transfers and provisioning of regulated liabilities with the enterprise's policy in these areas;
- the measures taken to monitor the management of claims, the monitoring of subsidiaries, the control of outsourced activities and the methods of marketing the company's products, and the risks that could result;
- procedures for developing and auditing financial and accounting information.

The internal audit function reports to the Board, and there do not appear to be specific requirements regarding the authority, and resources of the internal audit function.

	<p>There are currently no requirements for establishment of the Compliance Function, Risk Management Function or Actuarial Function.</p>
Assessment	Partly Observed
Comments	<p>The ICP requires insurers to have an effective internal control system and an effective risk management system. While many of the elements of an effective control system are in place, there are weaknesses in the requirements for an effective risk management system.</p> <p>In addition, the ICP requires insurers to have four effective internal control functions: compliance, actuarial and risk management and internal audit. At present, there is only a requirement for an internal audit function.</p> <p>It is recommended that the authorities:</p> <ul style="list-style-type: none"> <li>• look to strengthen requirements for both the internal control and risk management systems; and</li> <li>• require the establishment of all four internal control functions with the authority, independence and resources required by the ICP.</li> </ul> <p>Our understanding is that these requirements are consistent with ACAPS current proposed direction in developing the SBR project.</p>
<b>ICP 9</b>	<p><b>Supervisory Review and Reporting</b></p> <p>The supervisor has an integrated, risk-based system of supervision that uses both offsite monitoring and onsite inspections to examine the business of each insurer, evaluate its condition, the quality and effectiveness of its Board and Senior Management and compliance with legislation and requirements. The supervisor obtains the necessary supervisory information to conduct effective supervision of insurers and evaluate the insurance market.</p>



<p>Description</p>	<p><b>Regulatory Authority</b></p> <p>Article 242 and Article 246 of Law 17-99 authorise ACAPS to conduct off-site and on-site supervision. Article 243 also gives ACAPS broad powers to examine members of insurance groups and outsourced activities. Article 245 gives ACAPS broad powers to request documents and other information and the GC 6778 sets out the specific requirements for insurer submissions.</p> <p>ACAPS has the power to conduct emergency examinations of insurers without warning. This power has not been used frequently in the past.</p> <p><b>Supervisory Framework and Programme:</b></p> <p>Supervision is carried out largely through two ACAPS departments: the Permanent Control Department and the Inspection Department. Both of these departments report to the Head of the Insurance Supervision Directorate.</p> <p>The supervisory framework that is used is extensive (excluding group supervision) but appears to be largely be compliance-based. Legislation and regulations set out specific rules to be followed by financial institutions and the supervisor assesses compliance with these rules and notes issues and areas of concern. While this approach has generally been effective in improving the condition and solvency position of insurers in the market in the past, ACAPS recognizes there is need to move towards a more risk-based framework to facilitate further development of the industry, and to more closely adhere to international standards which require a more risk-based approach.</p> <p>ACAPS does not have a formal overarching supervisory framework document that sets out the principles, concepts, and core process of its current approach that it uses to guide its supervision of insurers. It does, however, have detailed laws and circulars establishing regulatory obligations and detailed documentation of onsite and offsite procedures, including guidance for these activities and the obligations of supervisory staff. They also have templates and guidance for insurer reporting and for the reports and documents that are prepared by staff.</p> <p>There is no formal composite risk rating for insurers or a formal “watch list used by the authorities. Prioritisation of institutions is done in the development of the annual supervisory programme (see below).</p> <p><b>Off-site Analysis:</b></p> <p>The Permanent Control Department is largely responsible for off-site supervision and follow-up on supervisory issues. Each insurer is supervised by a controller who conducts an annual assessment and writes a report on</p>
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	<p>the insurer's governance, operational, financial and technical position using qualitative and quantitative information submitted by the insurer. This work largely focuses on the financial position of insurers, and trends in financial position and operations, including corporate governance, compliance, and some aspects of market conduct (eg whether an insurer is honouring its contractual obligations). The assessment report is summarised and submitted to the ACAPS President and to the insurer for review. The department also communicates its views on the vulnerability of insurers to help set priorities for the onsite inspection programme for the coming year.</p> <p><b>On-site Supervision:</b></p> <p>The Inspection Department is responsible for onsite inspection of insurers. ACAPS establishes an annual inspection plan through the analysis of information and reports received by the Permanent Control Department and other information. The priority is given to those insurers that present the greatest issues and areas of concern.</p> <p>Inspections can be comprehensive, targeted or thematic and focus on perceived issues. These can be existing or prospective - particularly with respect to analysis of the solvency report or the actuarial report that insurers are required to prepare. Once finalised, the inspection plan for an insurer includes information on detailed scope, information required and timing and as well as the human resources necessary to carry out the mission within a fixed timeframe.</p> <p>When an inspection is completed its findings (or observations) are communicated to the Insurer's Board which has fifteen days to make comment (as required by Article 246 of the Law No. 17-99). The report is also sent to the insurer's auditors. Once finalised, a copy of the report is sent to the company which must submit an action plan to address the supervisor's observations in a manner that is acceptable to the supervisor. The implementation of this action plan is then closely monitored by the permanent controller.</p> <p>While ACAPS establishes priorities for inspection of insurers, all insurers receive at least one an onsite inspection every five years.</p> <p><b>Regulatory Reporting:</b></p> <p>Article 245 gives ACAPS broad powers to request documents and other information and the GC 6778 sets out the specific requirements for insurer submissions. Insurance and reinsurance companies are required to produce statements, reports, tables and documents that are used by the supervisor to check its financial position, the progress of its operations, premiums, settlement of claims, valuation and representation of provisions.</p>
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	<p>ACAPS requires insurers to submit financial statements, and key operational reports on an annual and a semi-annual basis. There are also extensive monthly and quarterly reporting requirements in areas like investments and premiums written (monthly reporting). The information is analysed to identify issues and to help gauge the insurer's solvency position. About 100 Key Performance Indicators are used to look at the condition of each company and the position of the market. The indicators cover:</p> <ul style="list-style-type: none"> <li>• changes in own funds;</li> <li>• profitability and evolution of results;</li> <li>• balance sheet analysis;</li> <li>• loss ratio, claims ratio, and combined ratio;</li> <li>• analysis of investment returns, capital gains, and asset allocation;</li> <li>• insurer provisioning; and</li> <li>• analysis of the solvency margin.</li> </ul> <p>The supervisor reviews off-balance sheet exposures through analysis of a statement provided with the financial statements. As previously mentioned, ACAPS has the ability to request additional information and to increase the frequency of reporting if necessary.</p> <p>ACAPS regularly reviews its reporting requirements. Some requirements are relatively new and were introduced in 2019.</p> <p><b>COB Supervision:</b></p> <p>ACAPS performs some onsite and offsite supervision of conduct of business risk for intermediaries and for insurance companies. For example claims management policies of the insurance companies are assessed by ACAPS staff during the supervisory cycle.</p> <p><b>Insurance Groups:</b></p> <p>ACAPS has identified a number of insurance groups operating in its market. ACAPS is not a home supervisor for any of these groups. ACAPS participates in supervisory colleges and in information sharing with other supervisors but currently does not supervise on a group basis. ACAPS powers to restrict capital or risk transfers ("ring fence") members of a financial group is limited unless the insurer falls below minimum capital requirements (see ICP 10).</p>
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Assessment	Largely observed
Comments	<p>Largely observed is based on the observations that:</p> <ul style="list-style-type: none"> <li>While ACAPS appears to have a broad-based supervisory system, it does not have a risk-based supervisory system; and</li> <li>The framework has weaknesses with respect to supervision of insurance groups and conduct of business risk.</li> </ul> <p>It is recommended that:</p> <ul style="list-style-type: none"> <li>ACAPS develop and document a risk-based supervisory framework and that it establish an implementation plan to introduce it over time. Development of the supervisory model should include consideration of risk-based approaches in other jurisdictions and their appropriateness to the Moroccan market.</li> </ul> <p>Implementation will also require careful planning, stakeholder consultation, activities to engage supervisory staff and provide necessary training. Development of an overarching supervisory framework document may be a useful first step to facilitate consultations and to help engage staff.</p> <p>It is our understanding that ACAPs staff is aware of these challenges and is already preparing to undertake this work.</p> <ul style="list-style-type: none"> <li>ACAPS along with other financial sector regulators in Morocco, develop an appropriate group supervision framework (see ICP 23).</li> <li>ACAPS should consider ways to supplement its approach to Conduct of Business supervision (eg thematic reviews) so that they are more focused and Conduct of Business risk rather than specific contravention of regulatory requirements.</li> </ul>
<b>ICP 10</b>	<p><b>Preventive and Corrective Measures</b></p> <p>The supervisor takes preventive and corrective measures that are timely, suitable and necessary to achieve the objectives of insurance supervision.</p>
Description	<b>Preventive and Corrective Measures</b>

	The supervisor takes preventive and corrective measures that are timely, suitable and necessary to achieve the objectives of insurance supervision.
Assessment	<p><b>Unauthorised Insurance Activities:</b></p> <p>Unauthorised insurance activities by insurers and by intermediaries are prohibited through several sections of the Law 17-99. Article 327 establishes penalties for unauthorised activity which can be punishable by either: imprisonment from three months to two years; or a fine of two thousand five hundred to ten thousand MADs (approximately \$1,100 US), or both.</p> <p>Investigations of unlicensed activity are not common in Morocco. Serious contraventions are referred to police authorities for investigation and prosecution. As contraventions are infrequent ACAPS does not yet have an established written protocol within the authority for the handling of unlicensed activity.</p> <p><b>Power to Take Corrective Action and Preventive Measures:</b></p> <p>The Law 17-99 includes preventive measures, and corrective measure and sanctions to achieve the objectives of insurance supervision. Major powers include:</p> <ul style="list-style-type: none"> <li>• <b>Articles 253</b> allows ACAPS to require an insurer to submit a financing programme to re-establish its solvency margin within three years if the insurer does not meet a specified %age of the solvency requirements. If the solvency margin is less than one third of the required solvency level, it must raise its solvency level to a level determined by ACAPS within three months.</li> <li>• While the three-year timeframes for insurers to re-establish their solvency positions under Article 253 seems excessive, ACAPS advises that the period of three years specified in legislation is a maximum period and that actual timeframes for financing programmes are usually much shorter and are set by ACAPS on a case by case basis. In case of refusal of a financing programme or its non-implementation, the provisions of Article 254 (below) are applied.</li> <li>• <b>Article 254</b> provides authority for ACAPS to act against an insurer when it appears that the insurer's financial situation may not allow it to fulfil its commitments. The authority may: <ul style="list-style-type: none"> <li>○ prohibit the authority from writing new business for up to two years; and/or</li> <li>○ require the insurer to submit a recovery plan.</li> </ul> </li> <li>• <b>Article 254-1</b> provides that, where an insurer is required to submit a refinancing programme or recovery plan, ACAPS may appoint a sworn agent who has full powers of investigation within the undertaking to supervise the activities of the institution and the progress of the refinancing programme or recovery plan.</li> </ul>

	<ul style="list-style-type: none"> <li>• <b>Article 258</b> allows ACAPS to appoint a temporary administrator and/or transfer the portfolio of outstanding contracts and claims if an insurer refuses to submit a recovery plan or fails to implement it, within accepted me frames or if ACAPS rejects the recovery plan. It also allows for the partial or total withdrawal of the insurers license.</li> <li>• <b>Article 265</b> Irrespective of Article 258, this provision allows ACAPs to withdraw an insurers authorisation in whole or in part where: <ul style="list-style-type: none"> <li>○ the general interest requires;</li> <li>○ the enterprise does not operate in accordance with the laws and regulations in force;</li> <li>○ the undertaking fails to comply with Article 128 relating to provision of Motor Vehicle insurance; and</li> <li>○ the undertaking does not fulfil financial guarantees provided for in Title V of the law.</li> </ul> </li> <li>• <b>Article 279</b> provides that where an insurance and reinsurance undertaking has failed to comply with a provision of the insurance law, the authority may impose on it, or on its managers, one of the following disciplinary sanctions, depending on the gravity of the failure to comply with this law: <ul style="list-style-type: none"> <li>○ a warning;</li> <li>○ formal censure;</li> <li>○ prohibition of certain operations and any other limitations on the exercise of the activity;</li> <li>○ the temporary suspension of one or more managers of the undertaking; and</li> <li>○ the automatic transfer of all or part of the company's portfolio of outstanding contracts and claims.</li> </ul> </li> </ul> <p><b>Supervisory Practices:</b></p> <p>ACAPS usually becomes aware of possible contraventions and regulatory problems through its normal offsite and on-site supervisory programmes. ACAPS issues an observation letter after each on-site inspection and follows up on its observations through the regular supervisory process.</p> <p>The second paragraph of Article 246 of the Law No. 17-99 stipulates that when the inspection report includes observations, it shall be communicated, to the Board of Directors or the Supervisory Board of the company which has a period of fifteen days to review and accept or reject the observations.</p>
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	<p>The insurer must then submit an action plan to address the deficiencies. If the action plan is not accepted by the supervisor, then the use of stronger supervisory or enforcement powers is considered.</p> <p>Most of the powers outlined above require a contravention of a regulatory requirement to be triggered but some, such as Article 254 can be used in a preventative manner.</p> <p>Examples of major preventative and corrective actions taken in recent years include:</p> <p><u>Preventive measures:</u></p> <ul style="list-style-type: none"> <li>• request for an insurer to discontinue securities lending transactions;</li> <li>• request to reduce the share exposure of a company; and</li> <li>• appointment of independent members to a supervisory board.</li> </ul> <p><u>Corrective actions:</u></p> <ul style="list-style-type: none"> <li>• withdrawal of approval to conduct certain categories of insurance;</li> <li>• implementation of a recovery plan for one insurer; and</li> <li>• 12 actions to correct insufficient coverage of insurer commitments.</li> </ul>
Comments	<p>Largely Observed is based on the observation that ACAPS has a significant range of enforcement powers that allow for escalation of action in the event of regulatory contraventions. Consideration should, however, be given to supplementing its pre-emptive powers.</p> <p>Most of ACAPS powers appear to be focussed at dealing with contravention of regulatory requirements rather than preventing contraventions from occurring. If, for example, an insurer was pursuing a very risky course of conduct that might lead to an issue in the future, the options for correcting the course of conduct appear to be limited.</p> <p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS consider supplementing its enforcement powers with more pre-emptive powers such as the power to issue legally enforceable directives (or a similar enforcement mechanism) if in the opinion of the supervisor an insurer is pursuing a course of conduct which puts the interests of policy holders and beneficiaries at risk but which has not yet resulted in a clear regulatory contravention;</li> <li>• ACAPS consider developing a written protocol for the handling of unlicensed insurance activity issues within the organisation;</li> <li>• The fines levels for unauthorised insurance activity be reviewed with a view as to its effectiveness as a deterrent in the market; and</li> </ul>

	<ul style="list-style-type: none"> <li>As part of its transition towards a risk-based supervisory framework, consideration be given to developing and publishing a formal ladder of intervention which establishes formal stages of intervention for insurers and describes the full range of preventative and corrective measures that insurers might face at each stage of intervention. This may help to ensure greater transparency of the intervention process and ensure consistent treatment of insurers and reinsurers.</li> </ul>
<b>ICP 11</b>	<p><b>Enforcement</b></p> <p>The Supervisor enforces corrective action and, where needed, imposes sanctions based on clear and objective criteria that are publicly disclosed.</p>
Description	<p><b>Legal Authority:</b></p> <p>ACAPS has a range of powers to enforce corrective action. These include the power to direct insurers to take particular actions and powers to restrict business activities. ACAPS's main powers include the following:</p> <ul style="list-style-type: none"> <li><b>Article 240</b> prevents insurers from distributing dividends if the insurer is not in compliance with requirements regarding TPs and the solvency margin.</li> <li><b>Article 265</b> (described above) allows ACAPS to withdraw an insurers authorisation in whole or in part in specified circumstances where: <ul style="list-style-type: none"> <li>the general interest requires;</li> <li>the enterprise does not operate in accordance with the laws and regulations in force;</li> <li>the undertaking fails to comply with Article 128 relating to provision of Motor Vehicle insurance; and</li> <li>the undertaking does not fulfil financial guarantees provided for in Title V of the law.</li> </ul> </li> <li><b>Article 251</b> allows ACAPS to issue injunctions against an insurer or reinsurer if they violate a provision of the law.</li> <li><b>Articles 253</b> (described above) allows ACAPS to require an insurer to submit a financing programme.</li> <li><b>Article 252</b> allows ACAPS to order an undertaking to suspend the payment of redemption values or the payment of advances on contracts if such payments would compromise the interests of the insured and beneficiaries.</li> </ul>



	<ul style="list-style-type: none"> <li>• <b>Article 254</b> provides authority for ACAPS to act against an insurer when it appears that the insurer's financial situation may not allow it to fulfil its commitments. The authority may: <ul style="list-style-type: none"> <li>○ prohibit the authority from writing new business for up to two years; and/or</li> <li>○ require the insurer to submit a recovery plan.</li> </ul> </li> <li>• <b>Article 279</b> (described above) provides that where an insurance and reinsurance undertaking has failed to comply with a provision of the insurance law, ACAPS may issue: <ul style="list-style-type: none"> <li>○ a warning;</li> <li>○ formal censure;</li> <li>○ prohibition of certain operations and any other limitations on the exercise of the activity;</li> <li>○ the temporary suspension of one or more managers of the undertaking; and</li> <li>○ the automatic transfer of all or part of the company's portfolio of outstanding contracts and claims.</li> </ul> </li> </ul> <p>ACAPS has the power to remove officers and discipline external auditors. It may also impose conservatorship over an institution and appoint liquidators.</p> <p>There do not appear to be specific direct penalties for individuals who obstruct ACAPS officials in the conduct of an investigation.</p> <p><b>Fines and Penalties:</b></p> <p>The Law 17-99 establishes a system of fines and penalties that may be applied for contraventions. Fines range from 500 MAD to 100,000 MAD depending on the contravention and many may be accompanied by a term of imprisonment. Some fines may also be applied specifically to officers and directors of the insurer for specific contraventions (eg the failure to pay a legitimate benefit or indemnity due under an insurance contract). They also include fines and penalties for insurers or intermediaries failing to provide information. Some penalties apply for each day a contravention remains outstanding (eg failure to provide information) others are applied to each contravention. The effectiveness of level of fines was last reviewed by ACAPS in 2016.</p> <p>Criminal sanctions are also available for selected offences (eg fraudulent bankruptcy) but these are dealt with by the public prosecutor.</p>
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	<p><b>Disciplinary Committee:</b></p> <p>The process for applying a sanction for most contraventions involves a recommendation from the Disciplinary Committee. The intent of the committee is to ensure fairness and consistency in enforcement decisions. Article 23 of the Law 64-12 establishing ACAPS provides for the establishment of the committee. The committee is responsible for giving the President of the Authority an advisory opinion on:</p> <ul style="list-style-type: none"> <li>• most sanctions to be imposed by the Authority in application of the legislative and regulatory provisions; and</li> <li>• the recovery plans submitted by the insurance and reinsurance companies pursuant to Article 254 of Law 17-99.</li> </ul> <p>This commission is chaired by a Court of Cassation magistrate who is a member of the ACAPS Board. It also includes:</p> <ul style="list-style-type: none"> <li>• Authority representatives;</li> <li>• insurer and reinsurer representatives; and</li> <li>• insurance intermediary representatives.</li> </ul> <p><b>Follow-up of Enforcement Decisions:</b></p> <p>The appeal of corrective actions or sanctions does not delay their application and ACAPS has the authority to action to enforce all sanctions it imposes. It follows-up on corrective action through regular supervisory process and through close monitoring of recovery plans and refinancing programmes.</p>
Assessment	Largely Observed
Comments	<p>ACAPS has strong powers to enforce corrective measures. Consideration should be given to supplementing these powers with strong penalties for individuals who obstruct ACAPS officials in the conduct of their work.</p> <p>In addition, ACAPS should consider developing guidelines for consideration of disciplinary matters.</p>
ICP 12	<p><b>Winding-up and Exit from the Market</b></p> <p>The legislation defines a range of options for the exit of insurance legal entities from the market. It defines insolvency and establishes the criteria and procedure for dealing with insolvency of insurance legal entities. In the event of winding-up proceedings of insurance legal entities, the legal framework gives priority to the protection of policyholders and aims at minimizing disruption to provision of benefits to policyholders.</p>

Description	<p><b>Legal Authority:</b></p> <p><b>Article 231 of Law 17-99</b> allows an insurer to voluntarily transfer all or part of their portfolio of contracts to one or more other approved insurers with the approval of ACAPS. The application for transfer submitted to the authority must be brought by the undertaking concerned to the attention of its creditors by a notice published in the Official Gazette, legal, judicial and administrative announcements. ACAPS will not provide approval unless the arrangement is in the best interests of policyholders and beneficiaries. This is set out in Circular No. 1/AS/2019.</p> <p><b>Article 253 of Law 17-99</b> allows ACAPS to require an insurer to submit a financing programme to re-establish its solvency margin within three years if the insurer does not meet a specified %age of the solvency margin (70 %). If the solvency margin is less than one third of the required solvency level, it must re-establish at least one third of the solvency level within three months. If it fails to do so or if it fails to implement its refinancing plan then the insurer may be subject to action under Article 254 below.</p> <p><b>Article 254 of Law 17-99</b> provides authority for ACAPS to act against an insurer when it appears that the insurer's financial situation may not allow it to fulfil its commitments. The authority may:</p> <ul style="list-style-type: none"> <li>• prohibit the authority from writing new business for up to two years; and/or</li> <li>• require the insurer to submit a recovery plan.</li> </ul> <p><b>Article 258 of Law 17-99</b> provides that in case of refusal to submit a recovery plan or failure to implement the accepted recovery plan within required timeframes, or if the authority rejects a recovery plan, the authority may:</p> <ul style="list-style-type: none"> <li>• appoint a temporary administrator; and</li> <li>• issue an ex officio transfer of the portfolio of outstanding contracts and claims - to withdraw the insurer's authorisation in full or in part.</li> </ul> <p><b>Article 259 of Law 17-99</b> requires the temporary administrator to report to the authority every six (6) months on their duties and, no later than twenty-four (24) months from the date of appointment, provide an assessment report of the company and its findings on the possibilities of its reorganisation or liquidation.</p> <p><b>Articles 265 and 268</b> allows ACAPS to withdraw, in whole or in part, an insurer's authorisation. In the event of the whole withdrawal of the insurer's authorisation, the insurer must be liquidated.</p>
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	<p><b>Article 276:</b> provides for the distribution of assets in liquidation. The assets of the insurer are divided into two categories: those subject to a special privilege and those subject to general privilege. Special privilege assets refer to those related to TPs and suretyships tied to specific insurance business. General privilege assets refer to movable property and other general assets of the business. Special privilege assets are assigned to policy holder and beneficiary claims in the following priority:</p> <ul style="list-style-type: none"> <li>• payments to workers compensation pensions claims;</li> <li>• Payments to other insurance contracts;</li> <li>• Provision for annuity payments; and</li> <li>• Unearned premium payments.</li> </ul> <p><b>Legal Priority of Policyholders:</b></p> <p>The legislation establishes clear procedures for winding up and a clear high priority for the rights and entitlements of policyholders under Article 276. Policyholders and beneficiaries have a claim on the assets of the institution after money owed to the government and outstanding wages and benefits owed to employees.</p> <p><b>Specification of a Winding-Up Point:</b></p> <p>While the Insurance law gives ACAPS to power to liquidate an insurer and authorises ACAPS to suspend an insurer's business and revoke its license under certain circumstances, the law does not specify a clear point where it is no longer permissible for the insurer to continue its business (eg a defined point where the license <u>must</u> be suspended or revoked).</p>
Assessment	Largely Observed
Comments	<p>The legislation does not specify a specific point at which it is no longer permissible for an insurer to continue its business. It is recommended that the legislation should be amended at the next opportunity to clearly establish a point at which it is no longer permissible for an insurer to continue to operate.</p> <p>This could perhaps be tied to plans to establish a more risk-based solvency requirement for insurers and the establishment of a Prescribed Capital Requirement and a Minimum Capital requirement for insurers.</p>

<b>ICP 13</b>	<b>Reinsurance and Other Forms of Risk Transfer</b>  The supervisor sets standards for the use of reinsurance and other forms of risk transfer, ensuring that insurers adequately control and transparently report their risk transfer programmes. The supervisor considers the nature of reinsurance business when supervising reinsurers based in its jurisdiction.
<b>Description</b>	<p>The only form of risk transfer available in Morocco for insurance companies at present is traditional reinsurance. The regulations in place do not currently consider risk transfer to the capital markets. ACAPS advises that there has been no demand by the market for such instruments. Should ACAPS encounter a company that has obtained or intends to obtain non-traditional reinsurance, ACAPS would need to consider how they could react to this. The law states that in exceptional cases, the Authority can accept and authorise certain practices. The law does not however appear to provide ACAPS with the power to reject such practices.</p> <p>Article 81 of the GC states that insurance and reinsurance companies must provide the Authority with a copy of their final reinsurance plan for their direct insurance business, including the reinsurance treaties entered into and effective from 1<sup>st</sup> January, by the 1<sup>st</sup> March each year. The plan must also be accompanied by the following documents:</p> <ul style="list-style-type: none"> <li>• The list of reinsurers participating in the reinsurance plan with their latest financial rating detailed, supported by a certificate or publication from a rating agency. In the absence of a rating that is more than eighteen months old, the latest financial statements of the reinsurer must be provided; and</li> <li>• A summary of each of the reinsurance treaties.</li> </ul> <p>Should there be any additional treaties entered into after the 1<sup>st</sup> January, which were not detailed within the reinsurance plan submitted to ACAPS, the company will need to notify ACAPS and provide them with the documents detailed under Article 81, within two months from the effective date of the treaty. In addition to the above, ACAPS may also request that the company provide details of the terms and conditions of any of these reinsurance treaties.</p> <p>The purpose of these requirements is to allow ACAPS to review the conditions of the treaties once they have been signed and are in force, and to check that they are in line with those that were detailed within the reinsurance plan. This helps to ensure that the company has complied with their reinsurance strategy. Should a treaty deviate from the reinsurance strategy, then ACAPS will take the regulatory action. Where the treaty does</p>

	<p>not comply with the reinsurance plan, ACAPS will require that the company send the treaties to ACAPS for approval the following year, before they can be signed.</p> <p>There is no specific requirement for companies to send the terms and conditions of facultative agreements to ACAPS. Article 100 of the GC requires insurance companies to provide ACAPS with a semi-annual report on facultative and details of all reinsurance balances, as well as details of the reinsurance provisions. When ACAPS reviews the accounts of the insurance company, they will review the reinsurance details and will be able to assess whether there have been any changes to the facultative reinsurance. If ACAPS notes any changes they will then query this with the insurance company.</p> <p>Article 83 of the GC states that the reinsurance plan must guarantee the placement of 100 % of the risks reinsured, with the reinsurance conditions being the same across each reinsurer. Article 84 states that the reinsurance agreements that are entered into must include the obligation for reinsurers to deposit assets representing 100 % of their share of the TPs set up by the ceding companies. The deposit must only consist of cash and/or securities listed in Article 39 of the Circular. However, ACAPS has the power to waive this requirement.</p> <p>Before ACAPS receive the final reinsurance plan, there is a requirement in the legislation for insurance companies to submit a draft provisional plan two months prior. Article 80 of the GC states that each insurance and reinsurance company must submit its provisional reinsurance programme for the next financial year to the Authority by the 1<sup>st</sup> of December each year. This document must detail the reinsurance conditions that will be in place and any changes expected to be introduced from the previous year, as well as a reference to any event that has occurred and is likely to change or affect its reinsurance policy.</p> <p>ACAPS reviews this document and will raise any queries with the company, approving it if there are no concerns. When ACAPS receives the final plan, they will review this document to ensure that it is line with the provisional plan ACAPS approved. ACAPS will also have a look at the reinsurance treaties signed by the company to ensure that they are in line with the details in the provisional plan approved. Article 89 of the GC states that the warranties and exclusions set out within facultative reinsurance agreements must conform to those detailed within the original reinsurance plan. The Authority is able to request that the company provide a copy of the contracts, cover notes or any contractual documents in relation to facultative reinsurance business. One of the purposes of requesting a provisional plan is to assess the adequacy of the plan with the reinsurance policy contained in the insurer's solvency report already communicated to the Authority. Therefore, any remarks or observations can be provided by ACAPS prior to the company concluding its reinsurance contracts.</p>
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	<p>There also exists the requirement for information on the company's reinsurance to be included within the annual solvency report prepared by insurance and reinsurance companies. This is so that the Authority can understand the impact that the reinsurance programme has on the solvency of the company. Article 78 of the GC requires insurance companies to include a section in relation to their reinsurance and the policies in place within the annual solvency report submitted to the Authority, while Article 77 states that companies must include an analysis of the impact of the reinsurance policies on the solvency and liquidity of the company within the annual solvency report. The solvency report considers different stress scenarios and the GC ensures that there exists a requirement for reinsurance risk to be considered within these. The analysis would be based on the results of scenarios where stress events are considered, such as the failure of a major reinsurer. Companies must also justify the choice of reinsurers in the solvency report.</p> <p>Article 78 of the GC specifically states that the reinsurance policy must take into account certain things, including:</p> <ul style="list-style-type: none"> <li>• The determination of the reinsurance coverage needs of the company, as well as the adequacy of the reinsurance on the risks covered;</li> <li>• The optimal fixed retention by risk;</li> <li>• The diversification and the financial rating of reinsurers;</li> <li>• An optimal investment within the local market;</li> <li>• Presentation of the qualitative and quantitative criteria on which the company relies to ensure the adequacy of its reinsurance programme, as well as on the assumptions and conclusions from the research carried out prior to the reinsurance programme being determined;</li> <li>• The procedures put in place by the company to monitor the execution of the reinsurance programme; and</li> <li>• An analysis of the overall technical result from the reinsurance over an appropriate reference period, assessing reinsurance costs and levels.</li> </ul> <p>There is no specific provision in the legislation that requires ACAPS to consider the supervision performed in the jurisdiction of the reinsurer, where the insurance company has purchased foreign reinsurance. Where ACAPS has a MoU in place with another jurisdiction, this may allow for information to be shared on foreign reinsurers. The Authority gives preference to reinsurance agreements with national reinsurers.</p> <p>Article 239-2 of Law No. 17-99 (the Insurance Code), states that insurance and reinsurance companies must have an internal control system in place for</p>
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	<p>the purposes of identifying, preventing, evaluating, managing and monitoring risks. They are also required to set up an internal audit structure reporting directly to the board of directors or the supervisory board, whose aim is to verify the effectiveness of the internal control system in place. A report on its activity will, at least once a year, be provided to the company's auditors. Reinsurance forms part of the business processes and therefore all reinsurance risks should be included in the risk mapping of the company and monitored by the internal control system of the company.</p> <p>Article 29 of the circular on internal control sets out some requirements in relation to the control of the reinsurance procedures in place. It states that reinsurance management procedures must provide the following:</p> <ul style="list-style-type: none"> <li>• The general method for managing reinsurance;</li> <li>• The limits and stop-loss reinsurance for any given product;</li> <li>• The procedures for the assignment of reinsurance risks; and</li> <li>• The administration and supervision of the movement in funds relating to reinsurance.</li> </ul> <p>Article 52 of the GC states that the TPs of insurance companies may only be eligible for hedging up to a %age according to the rating of the retrocessionaires. Only foreign reinsurers with a rating higher than AA-, as well as all Moroccan reinsurers, are eligible to account for 100 % of the TPs. Receivables from retrocessionaires that have not been rated for eighteen months or more, or that have a financial rating of less than BBB-, are not eligible to be included within the TPs.</p> <p>Article 88 of the GC ensures that insurance companies that are relying on facultative reinsurance do not commit to accepting risks before they have a signed agreement in place with the reinsurer, at a rate of 100 % of the amount of the guarantee exceeding the company's retention that will potentially and eventually be increased by the part covered by its reinsurance treaties.</p> <p>Article 90 of the GC states that facultative reinsurance contracts must include a clause to allow the insurance company or the cedant reinsurance company to terminate the agreement during the guarantee period should there be a downgrading to the reinsurer's rating.</p>
Assessment	Largely Observed
Comments	It is recommended that:



	<ul style="list-style-type: none"> <li>ACAPS consider the supervision performed in the jurisdiction of the reinsurer in reviewing reinsurance plans of insurers. The legislation does not specifically provide for the monitoring of the reinsurer's jurisdictional supervision where the reinsurance is purchased across borders;</li> <li>ACAPS consider including provisions in the regulations for other types of risk transfer as there could be future demand and this would need to be regulated; and</li> <li>ACAPS consider formalising how they assess whether insurance companies are placing risks in an 'optimal' manner within the local market.</li> </ul>
<b>ICP 14</b>	<b>Valuation</b>  The supervisor establishes requirements for the valuation of assets and liabilities for solvency purposes.
Description	<p><b>Current Valuation Requirements:</b></p> <p>For statutory purposes, all insurers are required to implement Moroccan GAAP. Title IV of Book 3 of the Insurance Code refers to insurance and reinsurance company's accounting rules. Pursuant to Article 233, licensed insurers and reinsurers are required to comply with general accounting rules referred to in Law No. 9-88. Article 234 stipulates specific provisions for the insurance sector.</p> <p>At a consolidated level, ACAPS does not establish requirements for the valuation of assets and liabilities for solvency purposes. Following the banking regulation, companies listed on the Casablanca Stock Exchange are required to implement IFRS while non-listed companies can choose between Moroccan GAAP and IFRS.</p> <p>As no valuation requirements are established at group level for solvency purposes, the analysis focuses only on the solo level.</p> <p>The valuation of TPs and investments is governed by Article 236 of the Insurance Code as well as by the texts adopted for its application. The valuation of assets and liabilities is detailed in Sections II and V, as well as Section III of Chapter II of the GC.</p> <p><b>Valuation of Assets and Liabilities:</b></p>

	<p>The valuation of assets and liabilities must be made in accordance with insurance and reinsurance company's accounting rules (Moroccan GAAP) which address recognitions, derecognitions and the measurement of assets and liabilities. The accounting rules provide a consistent basis for the valuation. There is some transparency as financial statements are required to be publicly available and are subject to an independent external audit.</p> <p>The valuation of assets follows the principle of historical cost valuation and is therefore not consistent with an economic valuation. Pursuing a more economic view, a provision for depreciation is built in case of a decrease in the investment value.</p> <p>The valuation of non-life liabilities is made according to the estimation of future claims but does not reflect the present value of future cash flows. As specified in Article 23 of the GC, for non-life insurers and reinsurers, the following TPs are required:</p> <ul style="list-style-type: none"> <li>• Unearned Premium Reserve [Provision pour primes non acquises];</li> <li>• Premium Reserve [Provision pour risques en cours];</li> <li>• Incurred But Not Reported Reserve (IBNR) [Provision pour risque en cours et pour sinistres inconnus];</li> <li>• Outstanding Claims Reserve [Provision pour sinistres à payer];</li> <li>• Equalisation Reserve [Provision pour fluctuations de sinistralité]; and</li> <li>• Mathematical Provision for Special Annuities Management.</li> </ul> <p>A specific treatment, providing some conservatism is required for motor vehicle liability insurance and workers' compensation insurance.</p> <p>The valuation of liabilities for life insurers consist of building a mathematical reserve based on the discounting at the guaranteed rate of future estimated claims, as specified in Article 21 of the GC. The valuation is based on French mortality tables and there has been no recent analysis carried out to compare those tables with the Moroccan population. In the event of death, adjustment factors on the mortality tables may be allowed according to the statistics provided by the company. Article 21 also requires the creation of a management provision, a provision for capital and the annuities payable, a provision for profit sharing and a provision for loss fluctuations.</p> <p><b>Technical Provision Requirements:</b></p>
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	<p>Consistent with ICP 14.6, Article 238 of the Insurance Code requires to insurance and reinsurance companies to have sufficient TPs to cover their engagements. This implicitly requires that financial liabilities do not take account of the own credit standing of the licensed insurer and to make appropriate allowance for embedded options and guarantees.</p> <p>The value of TPs does not include a MOCE. Rather, the margins are implicitly included in the standard factors used for valuing the reserves.</p>
Assessment	Partly Observed
Comments	<p>Partly Observed is based on the following observations:</p> <ul style="list-style-type: none"> <li>• The valuation of assets and liabilities is not consistent with an economic valuation and does not reflect the risk-adjusted present values of their cash flows;</li> <li>• No total balance sheet approach is in place for solvency purposes, which account for the interdependence between assets, liabilities, regulatory capital requirements and capital resources; and</li> <li>• The Insurance Code and GC specify the rules and requirements regarding TPs, but the current standards do not provide for the inclusion of MOCE.</li> </ul> <p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS develop a plan to incrementally move towards a higher level of compliance with the ICP standards over time. Such a plan might include defining dedicated requirements for the valuation of assets and liabilities for solvency purposes following an economic valuation;</li> <li>• ACAPS establish requirements at group level for the valuation of assets and liabilities for solvency purposes; and</li> <li>• ACAPS conduct an analysis of the relevance of the French mortality tables to the Moroccan market and allows insurers to adjust their mortality tables to their portfolio.</li> </ul>

<b>ICP 15</b>	<b>Investment</b>  The supervisor establishes requirements for solvency purposes on the investment activities of insurers in order to address the risks faced by insurers.
Description	<p>The requirements currently applicable to the investment activities of insurers are set out in the GC, Chapter II, Section III, as well as in a few other texts, namely the Insurance Code (Law No. 17-99), the Order of October 10<sup>th</sup>, 2005, Circular No. DAPS/EA/07/08 and Circular DAPS/EA/08/11. The GC (GC) No 01/AS/19 was endorsed by the ACAPS and came into force on January 2<sup>nd</sup>, 2019, after its approval by the Minister of Finance and its publication in the Official Journal.</p> <p>The current regulatory framework which applies to the investment activities of insurers has the following broad characteristics:</p> <ul style="list-style-type: none"> <li>• The current system is primarily rule-based. It distinguishes between investments used to cover TPs and those held as free assets.</li> <li>• <u>For free assets investments</u>: there are no requirements if they are made in Morocco; as regards free assets investments made abroad, as for all other deposits and investments, they are subject to a limit of 5% of the total assets.</li> <li>• <u>For assets representing TPs</u>: <ul style="list-style-type: none"> <li>○ There is a list of eligible assets, coupled with investment limits based on the type of issuer or the type of products; the rules and requirements can be revised (and have been several times) to adapt to the market needs.</li> <li>○ For investments covering TPs that do not fall within the list, such as investments abroad or derivatives, the approval of the supervisor is specifically required on a case-by-case basis.</li> <li>○ Several dispersion and diversification rules apply, mainly to cover concentration risk.</li> </ul> </li> <li>• Each insurer must prepare a Board approved annual report on its solvency, and provide it to ACAPS. The report must contain an analysis of the conditions under which the company is able to meet all of its commitments and details on its investment orientations and constraints.</li> </ul>

	<ul style="list-style-type: none"> <li>Each insurer must establish internal control procedures regarding its investments to assess and monitor the market risks to which it is exposed.</li> </ul> <p>Details on these characteristics are provided below.</p> <p><b>Contracts and Their Representation by Assets – General Provisions:</b></p> <p>For all contracts, Articles 37 and 38 of the GC requires that:</p> <ul style="list-style-type: none"> <li>“Commitments made in one currency are represented by assets denominated in the same currency”.</li> <li>“TPs are represented by assets located in Morocco”. However: <ul style="list-style-type: none"> <li>The representation of TPs related to reinsurance acceptance operations may be made by deposits with ceding companies;</li> <li>Investments in insurance and reinsurance companies located outside of Morocco may be admitted after approval by the Authority, as a representation of the TPs;</li> <li>Insurance companies operating abroad may represent the portion of their TPs corresponding to commitments related to operations carried out outside of Morocco by assets located abroad”.</li> </ul> </li> </ul> <p>As regards unit-linked contracts, the portfolio of assets representing them must be segregated from other assets. Article 36 of the GC reads: “TPs of unit-linked contracts are represented by assets denominated in the same units of account. For these contracts, the company must have the technical means and internal procedures guaranteeing a strict congruence anytime, without surplus or deficit, of the portfolio of assets used to support these contracts with the technical commitments resulting from these contracts, as well as the recording of accounting entries under the conditions defined by the insurance accounting plan”.</p> <p><b>List of eligible assets representing TPs:</b></p> <p>Article 39 of the GC provides for a list of assets eligible to represent TPs. The list includes for example:</p> <ul style="list-style-type: none"> <li>Securities issued by the State;</li> <li>Short-term Government securities;</li> <li>Bonds issued by banks;</li> </ul>
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	<ul style="list-style-type: none"> <li>• Bonds listed on the stock exchange other than those listed above;</li> <li>• Built urban buildings, located in Morocco;</li> <li>• Shares listed on the stock exchange; and</li> <li>• Sukuk certificates under Law No. 33-06.</li> </ul> <p>Other assets that are not listed within Article 39 of the GC, such as derivatives, are subject to a case-by-case authorisation of ACAPS, as mentioned in paragraph 30 of Article 39 of the GC and in Section III of the Order of October 10<sup>th</sup>, 2005.</p> <p><b>Investments abroad:</b></p> <p>According to Article 164 of the Insurance Code, deposits and investments abroad are limited to 5% of the insurer's total assets and subject to the prior approval of ACAPS. Several additional conditions and rules, detailed in Circular No. DAPS/EA/07/08, apply to investments abroad, regarding in particular:</p> <ul style="list-style-type: none"> <li>• Countries in which it is authorised to carry out operations (OECD, EU, Arab Maghreb Union);</li> <li>• Minimum ratings of banks in which deposits can be made;</li> <li>• Countries of issuance of sovereign bonds which can be acquired;</li> <li>• Minimum ratings of debt securities which can be acquired; and</li> <li>• Tradability of equities, debt securities and securities of collective investment institutions in transferable securities (SICAV or FCP), which can be acquired.</li> </ul> <p>If one of the conditions is not met, the insurer must, within 30 days, either redistribute its assets to satisfy the conditions or re-patriate the corresponding amounts. Insurers are required to inform ACAPS of the operations as soon as they are carried out, specifying the nature and scope of the operation and the country where the operation was performed.</p> <p>Free assets investments made abroad are also subject to the same overall limit of 5% of the total assets (this limit applies to total investments, whether free assets or assets representing TPs) and have to satisfy the conditions of Circular No. DAPS / EA / 07/08 of July 18, 2007.</p> <p><b>Rules on Diversification and Dispersion for Assets Representing TPs:</b></p>
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	<p>Rules on diversification and dispersion, defined in Articles 49 to 56 of GC, apply to the assets covering TPs, in particular to cover concentration risk. For example:</p> <ul style="list-style-type: none"> <li>• A minimum of 30 % of the TPs must be represented by assets issued by the State or guaranteed by it, by Sukuk certificates and a few other types of assets;</li> <li>• A maximum of 70 % of the TPs must be represented with other assets;</li> <li>• A maximum of 10 % of the TPs for subordinated listed bonds, 10% for mortgage loans, 60 % for equities, listed bonds and UCITS on these securities, 5 % for foreign securities;</li> <li>• A maximum of 15 % of the TPs for all other assets that are not mentioned in the list of eligible assets and which are subject to a case-by-case authorisation of ACAPS;</li> <li>• A maximum of 12.5 % of the total reduced<sup>1</sup> assets representing TPs for bonds, certificates of deposit, equities, etc. issued by an insurer or a reinsurer;</li> <li>• A maximum of 12.5 % of the total reduced assets representing TPs for bonds, certificates of deposit, equities, etc. issued by a bank; and</li> <li>• A maximum of 12.5 % of the total reduced assets representing TPs for a non-bank, non-insurer issuer making public offerings, and 5% otherwise, is accepted.</li> </ul> <p><b>Solvency Report:</b></p> <p>According to Article 239-1 of the Insurance Code, at the end of each financial year, the Chief Executive Officer or the Management Board prepares a report on the company's solvency. This report is approved by the Board of Directors or the Supervisory Board. This solvency report must contain an analysis of the conditions under which the company is able to meet all of its commitments. This report must be communicated to the Authority and to the auditors.</p>
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<sup>1</sup> Reduced assets representing TPs" means that the claim on the Solidarity Fund of Insurance and a few other claims are subtracted from the amount of assets representing TPs.

	<p>Article 77 of the GC provides for details on the solvency report, which must include:</p> <ul style="list-style-type: none"> <li>• An analysis of the conditions under which the company guarantees, by setting up TPs, the commitments it makes to policyholders, justifying that these provisions are sufficient to cover all commitments;</li> <li>• A statement of investment orientations based on: <ul style="list-style-type: none"> <li>○ The investment plan for the year and the associated asset objectives;</li> <li>○ Investment performance objectives;</li> <li>○ The constraints set in terms of volatility and sensitivity of financial instruments;</li> <li>○ The limits that the company must observe in the dispersion of investments and asset allocation;</li> <li>○ The reference indices and their justification, if any, and;</li> </ul> </li> <li>• A solvency analysis based on simulations.</li> </ul> <p><b>Internal Controls:</b></p> <p>According to Articles 21 and 22 of Circular DAPS/EA/08/11, the insurer must have an internal control system regarding its loans and investments to ensure that the interest rate, currency or asset-price risks to which it is exposed are well assessed and monitored. Moreover, the system must incorporate limits and ranges to contain these risks.</p> <p><b>Ongoing Development of a Risk-based Solvency Framework:</b></p> <p>ACAPS has initiated a major project to move from the current regulatory framework to a risk-based framework ("Solvability Basée sur les Risques", SBR), which, if achieved, will have major prudential and operational impacts, and in particular on the way investments are taken into account. The SBR is planned to come into force during 2021.</p>
Assessment	Partly Observed
Comments	Partly Observed is based on the following observations:



	<ul style="list-style-type: none"> <li>• The supervisor establishes transparent qualitative and quantitative rules and requirements applicable to the investment activities of the insurers, including for more complex asset classes. However, the objectives pursued in establishing those requirements are not explicitly stated by the supervisor;</li> <li>• The GC explicitly specifies the rules and requirements regarding the diversification and dispersion applicable to the insurers' investments but the requirements addressing the security and liquidity are only implicit;</li> <li>• Some limits applicable as diversification and dispersion requirements appear to be high. For example, it is technically possible that investments in equities reach 60 % of the TPs. In 2018, equities represented almost 48 % of the total investments of insurers. The prudence of such high equity limit is a significant concern. As another example: 12.5 % of the total reduced assets representing TPs can be invested in assets issued by a non-bank non-insurer making public offerings; and</li> <li>• Apart from a list of eligible assets and the fact that assets not in this list are subject to the supervisor's approval, there are no specific provisions to require that the insurers invest only in assets whose risks they can properly assess and manage. More generally, the current rule-based regulatory framework could disincentivize insurers from developing effective internal risk management systems and designing investment strategies suited to their risk-profiles.</li> </ul> <p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• Consideration be given to making the objectives of the requirements explicit in the legislation, for example through the addition of a dedicated article explaining the goal of these requirements (risk management, policyholder protection) in Chapter II, Section III of the GC;</li> <li>• Amendments be made to the legislation establishing explicit rules and requirements to address the security and liquidity of insurers' investments. In the GC, Chapter II, Section III, subsection IV deals with diversification and dispersion requirements. In the same manner, additional subsections could be added to make explicit reference to possible requirements aimed at addressing the security and liquidity aspects of the investments (eg minimum proportion of sovereign bonds, highly tradable assets, minimum ratings, etc.);</li> <li>• Some of the limits applicable as diversification and dispersion requirements, particularly those related to equities, be reduced. This may be a challenge given the Moroccan capital markets' lack of depth and limited range of issuers;</li> </ul>
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	<ul style="list-style-type: none"> <li>• Consideration be given to establishing a general requirement that insurers only invest in assets whose risks they can properly assess and manage;</li> <li>• ACAPS continue to develop, complete and implement the SBR project which will enable insurers to move from the current rule-based system to a risk-based framework and will in particular stimulate the implementation of effective internal risk management by insurers.</li> </ul>
<b>ICP 16</b>	<p><b>Enterprise Risk Management for Solvency Purposes</b></p> <p>The supervisor establishes enterprise risk management requirements for solvency purposes that require insurers to address all relevant and material risks.</p>
Description	<p><b>Definition of Enterprise Risk Management (ERM)</b></p> <p>ERM can be defined as the process of identifying, assessing, measuring, monitoring, controlling and mitigating risks. It is applied in strategy setting across the enterprise, to identify potential events that may affect the entity, to manage risks within the insurer's risk appetite, and to provide reasonable assurance regarding the achievement of entity objectives.</p> <p>An ERM Framework should include an Own Risk Solvency Assessment (ORSA). ORSA has been defined as a tool of the ERM system that requires insurance undertakings to properly assess their own short and long-term risks and the amount of own funds necessary to cover them.</p> <p>An ERM Framework must also include a risk management policy that outlines how all relevant and material categories of risk are managed, both in the insurer's business strategy and in its day-to-day operations. A risk management policy must include an explicit asset-liability management (ALM) policy that clearly specifies the nature, role and extent of ALM activities and their relationship with product development, pricing functions and investment management. It must include an explicit investment policy that specifies the nature, role and extent of the insurer's investment activities and how the insurer complies with the regulatory investment requirements established by the supervisor. It must also include explicit policies in relation to underwriting risk.</p> <p>An ERM Framework must also include risk tolerance statement which sets out its overall quantitative and qualitative risk tolerance levels and defines risk tolerance limits which take into account all relevant and material categories of risk and the relationships between them; make use of its risk tolerance levels in its business strategy; and embeds its defined risk tolerance limits in its day-to-day operations via its risk management policies and procedures.</p>

	<p>An ERM Framework should be responsive to changes in the insurer's risk profile and incorporate a feedback loop, based on appropriate and good quality information, management processes and an objective assessment, which enables it to take the necessary action in a timely manner in response to changes in its risk profile and revise its risk management policies and procedures along with its ERM framework.</p> <p><b>Current legal framework:</b></p> <ul style="list-style-type: none"> <li>• Article 239-2 of the Law No. 17.99 on the Insurance Code stipulates that insurance and reinsurance companies must set up an internal control system for the purpose of identifying, preventing, evaluating, managing and monitoring risks. Insurers also have to set up a governance system that corresponds to their activities (see ICP 8).</li> <li>• Article 239-1 of the Law No. 17-99 requires that the Chief Executive Officer or the Executive Board draw up a report on the solvency of the company in accordance with the terms and conditions set out in the Authority's circular (No. DAPS / EA / 11 of August 26th, 2008). This report is approved by the board of directors or the supervisory board. The solvency report must contain an analysis of the conditions under which the company is able to meet all of its commitments. This report is sent to ACAPS and the statutory auditor.</li> <li>• Article 77 of the circular of the President of ACAPS No. 01 / AS / 19 of January, 2nd 2019 requires that the solvency report must set out the list of risks incurred by the company and the level of control in relying on the internal control system and the results of the investigations from internal audit.</li> <li>• According to Article 77 of the circular (No. 01 / AS / 19 of January, 2nd 2019), the report must also analyse the conditions under which the company is able, in the medium and long term to meet all of its obligations in relying on results from crisis scenarios which could jeopardise the solvency. Those simulations must include the following risks:             <ul style="list-style-type: none"> <li>○ Interest rate risk;</li> <li>○ Financial market risk;</li> <li>○ Liquidity risk;</li> <li>○ Mortality risk;</li> <li>○ Evolution of the settlement of claims; and</li> <li>○ Counterparty risk of reinsurance.</li> </ul> </li> <li>• Article 78 of the GC adopted in 2019 further emphasised the content of the reinsurance policy by providing a description of the insurer's policy regarding risk retention through a reinsurance programme that it is required to communicate to the Authority as from 2019.</li> </ul>
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	<ul style="list-style-type: none"> <li>• Article 11 paragraph 3 (No. DAPS / EA / 11 of August 26th, 2008) stipulates that the board of directors or supervisory board approves, at least annually, the report on the internal control activities established by the internal audit. This report states the methods used to measure, evaluate and control investments particularly with regard to the assessment of asset quality and asset-liability management.</li> <li>• Article 22 of the Circular No. DAPS / EA / 11 of August 26th, 2008 requires that the insurer's investment policy expressly determine the acceptable ranges of investments in various types of financial instruments.</li> <li>• Article 23 of the Circular No. DAPS / EA / 11 of August 26th, 2008 stipulates that the subscription and commitment risk corresponds to the risk of financial loss resulting from the selection and acceptance of the risks to be insured, the claims management and the management of contractual options and others related to products.</li> <li>• Article 24 of the Circular (No. DAPS / EA / 11 of August 26th, 2008) mentions that the subscription and commitment policies must stipulate: <ul style="list-style-type: none"> <li>○ the guiding principle determining to what extent the company is willing to assume the underwriting and commitment risk;</li> <li>○ the type of investigation to be conducted prior to reviewing and approving settlement claims;</li> <li>○ the appropriate levels of delegation of authorisation authority, clearly established;</li> <li>○ subscription concentration limits, determined carefully and prudently;</li> </ul> </li> <li>• Article 31 of Circular (No. DAPS / EA / 11 of August 26th, 2008) stipulates that the IT risk control system must ensure a level of safety deemed satisfactory in relation to technological standards and the requirements of the profession. Such arrangements must be implemented in compliance with the provisions of the sections 32 to 34 of the same circular.</li> <li>• Letter circular (N° 13/2356) specifies 3 levels of defence for the purpose of internal control. A control by the operational teams, another of 2nd level by a dedicated structure and the 3rd by the internal audit. This letter does not have the force of law but it is a strong guidance from the authorities.</li> </ul> <p><b>Standard Adherence</b></p> <ul style="list-style-type: none"> <li>• Article 239-2 of the Law No. 17.99 on the Insurance Code stipulates that insurance and reinsurance companies must set up an internal control system for the purpose of identifying, preventing, evaluating, managing and risk monitoring. Insurers also have to set up a governance system which corresponds to their activities. Even though this law contributes to improving risk management, at present, Morocco does not specifically require insurers to establish an ERM framework.</li> </ul>
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	<ul style="list-style-type: none"> <li>• In practice, except the subsidiaries of international groups, majority of the insurers and reinsurers in Morocco have not begun to set up an ERM framework.</li> <li>• While some of the major building blocks of an ERM framework appear to be in place, these do not constitute all of the elements of the ICP. For example, Article 22 and 23 of Circular (No. DAPS / EA / 11 of August 26th, 2008) mention the investment policy and commitment policy, but there are no requirements to oblige insurers to write those policies. Written policies are a substantive part of the ERM Framework, as such tools allow the application of the strategy approved by the board.</li> <li>• According to ICP 8, “The insurer’s risk policies should be written in a way to help employees understand their risk responsibilities. They should also help explain the relationship of the risk management system to the insurer’s overall corporate governance framework and to its corporate culture. The overall risk management policy of the insurer should outline how relevant and material risks are managed. Related policies should be established, either as elements of the risk management policy, or as separate sub-policies. At a minimum, these should include policies related to the risk appetite framework, an asset-liability management policy, an investment policy, and an underwriting risk policy.”</li> <li>• An ERM Framework must also include risk tolerance statement. At present, Morocco does not require insurers to establish their level of risk appetite.</li> <li>• An ERM Framework must also include an ORSA. At present, Morocco does not require insurers to establish an ORSA.</li> <li>• An ERM Framework should be responsive to changes in the insurer’s risk profile and incorporate a feedback loop; Morocco does not require insurers to establish a feedback loop.</li> <li>• Article 31 of Circular No. DAPS / EA / 11 of August 26th, 2008 stipulates that the IT risk control system must ensure a level of safety deemed satisfactory in relation to technological standards and the requirements of the profession. Concerning the responsiveness to change in the insurer’s risk profile, the operational risk regarding the information system of insurers play a key role. According to our exchange with ACAPS, the authority does not have sufficient of resources to supervise the information systems of insurers. Today, the Authority does not have specialist resources to carry out supervision of the information systems of companies. However, a recruitment programme has been launched by ACAPS and this aims to diversify existing profiles in order to prepare for when the SBR circular comes into force, which foresees important requirements, particularly in terms of data quality, risk management systems, business continuity plans.</li> <li>• Article 77 of the Circular No. 01 / AS / 19 of January, 2nd 2019 requires insurers to provide to a certain extent some information regarding</li> </ul>
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	<p>guidance from companies in terms of investments and the, simulation of crisis scenarios for at least six defined risks. Notwithstanding, Morocco is not compliant with ICP 16.2, which requires the insurer's measurement of risk to be supported by accurate documentation providing appropriately detailed descriptions and explanations of the risks covered, the measurement approaches used and the key assumptions made.</p> <p><b>Ongoing Initiatives</b></p> <p>While we observe that some of the blocks needed to build an ERM framework already exist, They do not constitute a full ERM system: however, the authority has to continue implementing:</p> <ul style="list-style-type: none"> <li>• ICP 8, notably, obliging insurers to have written policies;</li> <li>• Establishing requirements for insurers and reinsurers regarding risk management policies;</li> <li>• Establishing requirements for insurers and reinsurers regarding risk tolerance;</li> <li>• Establishing requirement for insurers and reinsurers regarding ORSA;</li> <li>• Establishing requirement for insurers and reinsurers regarding loop back.</li> </ul> <p>It is important to point out that a precondition to fully implement an ERM framework is to strengthen the general governance of insurers (reinsurers). Regular exchanges with market players should be a starting point, organisation of meeting and training sessions. All the player need to be on board to reach those objectives.</p> <p>ACAPS is in the process of setting up an ERM Framework. The Authority is developing a new standard named the "risk-based solvency project". This new standard would cover ERM policies, notably:</p> <ul style="list-style-type: none"> <li>• Written policies;</li> <li>• ORSA;</li> <li>• Risk management;</li> <li>• Risk appetite.</li> </ul> <p>According to our exchange with ACAPS, the new standard is expected to be implemented after 2021.</p>
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	<p>According to ACAPS, Takaful insurers will be governed by the same rules as regular insurance companies.</p> <p>Article 239-2 of Law 99-17 (insurance code) actually defines internal control as a system whose the objectives are to identify, anticipate, measure, manage and monitor the risks. Article 94 from the SABR Project defines the risk management system in the same way. In the future, ACAPS should ensure a clear differentiation between internal control and risk management. ACAPS staff is aware of this issue and is working on the necessary amendments.</p>
Assessment	Partly Observed
Comments	In conjunction with strengthening governance and internal control requirements, specific ERM requirements (ICP 16) should be developed including ORSA and ERM processes for individual entities and groups.
<b>ICP 17</b>	<p><b>Capital Adequacy</b></p> <p>The supervisor establishes capital adequacy requirements for solvency purposes so that insurers can absorb significant unforeseen losses and to provide for degrees of supervisory intervention.</p>
Description	<p>The Authority requires insurance and reinsurance companies to meet minimum capital requirements for licensing purposes. Minimum capital amounts are established in Article 171 of the Insurance Code and correspond to at least 50 million Dirhams. The Authority may require a higher amount depending on the insurance operations and the forecasts of its commitments.</p> <p><b>Solvency Assessment</b></p> <p>The capital adequacy requirements for solvency purposes of insurance and reinsurance companies follow a Solvency I approach and are based on the following three requirements:</p> <ol style="list-style-type: none"> <li>1) Holding sufficient provisions, as referred to in Article 238 of the Insurance Code (see ICP 14 for general valuation aspects)</li> <li>2) Covering these provisions with safe, profitable and liquid assets (Articles 39 and 49 of the GC)</li> </ol>

	<p>3) Justify at any time the existence of a solvency margin in addition to the TPs (Article 239 of the Insurance Code).</p> <p>In addition, Article 239-1 of the Insurance Code stipulates that insurers must send annually a solvency report to the Authority and the auditors including an analysis of the conditions under which the company is able to meet all of its commitments.</p> <p>Currently, it does not look like that a total balance sheet approach is used in the assessment of solvency that recognises the interdependence between assets, liabilities, regulatory capital requirements and capital resources. As the requirements are not risk-based, the impacts of relevant material risks on an overall financial position may not be appropriately and adequately recognised.</p> <p>Solvency margin provisions are contained in the Insurance Code and follow EU Solvency I norms. The Solvency Margin is the ratio of available capital resources (the “constituent elements of the solvency margin”) to the capital requirement (the “the minimum amount of the solvency margin”). The constituent elements of the solvency margin and the minimum amount of the solvency margin are defined in Article 75 and Article 76 of the GC.</p> <p><b>Capital Resources - <i>The constituent elements of the solvency margin</i></b></p> <p>The constituent elements of the solvency margin, include:</p> <ul style="list-style-type: none"> <li>• Issued share capital or established corporate fund,</li> <li>• Reserves not related to insurance obligations,</li> <li>• The capitalisation provision,</li> <li>• Loan for an increase of the establishment fund for mutual insurance companies,</li> <li>• The profits reported, and</li> <li>• Unrealised gain, where requested by the company and under certain conditions</li> </ul> <p>From the sum of those elements, the following are deducted:</p> <ul style="list-style-type: none"> <li>• The losses</li> <li>• The depreciation and amortisation remaining on the accounts of the items "non-current assets" and "intangible assets",</li> </ul>
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	<ul style="list-style-type: none"> <li>• The reported acquisitions fees,</li> <li>• The treasury shares held,</li> <li>• Investments in subsidiaries not listed on the stock exchange other than real estate companies; and</li> <li>• Off-balance sheet commitments.</li> </ul> <p>A capital resource eligibility limit applies, stating that the constituent elements of the solvency margin, excluding unrealised gains, must represent at least 70 % of the minimum amount of the solvency margin excluding the reinsurance recoverable.</p> <p>The regulation does not establish criteria for assessing the quality and adequacy of capital resources but lists the capital elements accepted to cover the solvency margin. The Authority established the list of constituent elements of the solvency margin having regard to the capacity to absorb losses.</p> <p><b>Capital Requirement - <i>The minimum amount of the solvency margin</i></b></p> <p>The minimum amount of the solvency margin is calculated using a flat-rate method to insurance activities. It is a level calculated according to a lump sum method based on %ages applied to certain aggregates taken from the insurer's statutory account. The current level at which %ages are set does not take into account the risk tolerance of the Authority.</p> <p>For non-life business, the minimum amount of the solvency margin is the higher of three calculations, one based on premiums, one on losses and one on reserving. The same solvency margin requirements apply to reinsurers.</p> <p>For insurance covering death, marriage, birth insurances and capitalisation (savings) business the minimum amount of the solvency margin is equal to the sum of the:</p> <ul style="list-style-type: none"> <li>• First result, obtained by multiplying 5 % of the technical reserves, gross of reinsurance cessions, by the existing ratio in the last year between mathematical reserves net of reinsurance and gross mathematical reserves, with the provision that this ratio cannot be less than 85 %</li> <li>• Second result, obtained by multiplying 0.3 % of the sum of insureds at risk by the existing ratio in the last year between the total sum of insureds net of reinsurance and gross sum insureds, with the provision that this ratio cannot be less than 50 %.</li> </ul>
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	<p>For insurances covering death having a maximum duration of three years the multiplying factor for sums insured at risk is 0.1 % or 0.15 % when the policy period exceeds three years but does not exceed five.</p> <p>For contracts with a variable sum insured the %age to be used is 1% when the insurer does not assume the investment risk and 4 % when it does assume this risk. When the insurer assumes the mortality risk at a minimum of 0.3 % of the sums insured at risk net of reinsurance multiplied by the existing ratio in the last year of sums insured at risk net of reinsurance and gross sums insured at risk.</p> <p>For worker compensation annuities, the minimum amount of the solvency margin is 5 % of the mathematical provision.</p> <p><b>Capital Adequacy for Insurance Groups</b></p> <p>While some insurance groups have their headquarters in Morocco, no solvency requirements are established at group level.</p> <p><b>Use of Internal Models</b></p> <p>Under current regulatory rules, internal models are not allowed to be used to determine regulatory capital requirements.</p> <p><b>Ladder of Intervention</b></p> <p>Different ladders of intervention are foreseen by the legislation. Pursuant to Article 253 of the Insurance Code, where:</p> <ul style="list-style-type: none"> <li>• The solvency margin falls under 100 %, the Authority must require the presentation of a financing plan in order to restore within a maximum of three years its level of compliance. Under this level, the distribution of dividends is forbidden (Article 240). This level of intervention could be considered a Prescribed Capital Requirement (“PCR”).</li> <li>• Where the solvency margin falls under 33 % (one third of the minimum amount of the solvency margin), a financing plan to restore compliance within three months should be provided. Where a company fails to present or to implement such financing plan, the provisions of Article 254 apply. This level of intervention combined with the provisions of Article 254 could be considered a Minimum Capital Requirement (MCR).</li> </ul> <p>Pursuant to Article 254 of the Insurance Code, when it appears that the financial situation of an insurer may not give sufficient guarantees to enable the fulfilment of its commitments, the Authority may</p>
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	<ul style="list-style-type: none"> <li>Prohibit the insurer from subscribing new business for a period not greater than two years, in one or several lines of business</li> <li>Require the presentation of a recovery plan in order to fulfil its commitments within a timing fixed by the Authority. During this period, all the decisions made by the insurer's Board require pre-approval by the Authority.</li> </ul> <p>In extreme cases, when an insurer does not comply with the financial rules referred to in title V of the Insurance Code, the Authority has the power to partially or completely withdraw its approval (Article 265 of the Insurance Code).</p> <p>Although different ladders of intervention are foreseen, the degree of urgency to restore compliance is generous in the case of the PCR where three years are given to restore compliance and the level of MCR may be too low to provide an effective ultimate safety net for the protection of the interests of policyholders.</p> <p><b>Ongoing Initiatives</b></p> <p>The current capital requirement is not risk-based and does not address all relevant and material categories of risk such as market risk, but the Authority is developing a new standard named the "risk-based solvency project".</p> <p>This new standard will cover life underwriting risk, non-life risk, catastrophic risk, market risk, counterparty risk and operational risk and each of its risk categories with the corresponding sub-risks. The structure of this capital requirement will follow a standardised formula calibrated at a 99.5 % value at risk with a one-year horizon and will account for the diversification between risks. The new standard is expected to be implemented after 2021, once the circular is stabilised, and the impact studies have been conducted.</p>
Assessment	Partly Observed
Comments	<p>Partly Observed is based on the following observations:</p> <ul style="list-style-type: none"> <li>The current solvency approach follows a Solvency I type approach and is not risk-based. It is not a total balance sheet approach as it does not account for the interdependence between assets, liabilities, regulatory capital requirements and capital resources for determining the solvency requirements.</li> <li>No solvency requirements are established at a group level.</li> </ul>

	<ul style="list-style-type: none"> <li>• The capital requirement does not address all relevant and material categories of risk such as market risk.</li> <li>• The regulation does not establish criteria for assessing the quality and adequacy of capital resources but lists the capital elements accepted to cover the solvency margin.</li> <li>• The degree of urgency to restore compliance with the PCR appears overly generous (i.e. three years) and the level of MCR may be too low (33 %) to provide an effective ultimate safety net for the protection of the interests of policyholders.</li> <li>• As a result, it is not clear that the existing regulatory capital requirements are calibrated so that in adversity an insurer's obligations to policy holders will be fully met.</li> </ul> <p>It is recommended:</p> <ul style="list-style-type: none"> <li>• The Authority continues improving its efforts towards a regulatory capital requirement that sets a sufficient level so that, in adversity, insurer's obligations to policyholders continue to be met as they fall due. The implementation of the risk-based solvency project that is under development is moving into that direction.</li> <li>• To set a higher level of MCR in order to provide an effective ultimate safety net for the protection of the interests of policyholders.</li> </ul>
<b>ICP 18</b>	<p><b>Intermediaries</b></p> <p>The supervisor sets and enforces requirements for the conduct of insurance intermediaries, to ensure that they conduct business in a professional and transparent manner.</p>
Description	<p>Article 291 of the Law No.17-99 defines an insurance intermediary as any person authorised by the Authority, as an insurance agent, whether a natural or legal person, or as a brokerage company. Law No. 17-99 requires insurance intermediaries to be licenced.</p> <p>Other requirements can be found within Article 306 of the Law which provides that on an exceptional basis, other persons can mediate insurance contracts. This enables institutions like Barid Al-Maghrib (the post office), licensed banks and micro-credit associations, to sell certain insurance products. The Barid Al-Maghrib and banks are only allowed to sell life insurance, personal accident and health, technical and personal assistance products and export insurance.</p>

	<p>Moreover, as provided for by ACAPS Circular 01/AS/19, article 126 and Article 127 of Circular 01/AS/19 provide that the “Sociétés de Financement” can provide death &amp; invalidity insurance, together with the granting of a loan. Micro credit institutions are also allowed to sell life insurance to their clients as well as fire and theft insurance.</p> <p>Intermediaries are subject to integrity, professional knowledge and competency requirements. The general requirements include:</p> <ul style="list-style-type: none"> <li>• For natural persons to: <ul style="list-style-type: none"> <li>○ Be of Moroccan citizenship;</li> <li>○ Hold a Bachelor's degree from a national university (or a diploma recognised as equivalent);</li> <li>○ Have completed a training period or have a two (2) years' continuous professional experience in the insurance field;</li> <li>○ Have passed the professional exam. The exam is offered intermittently depending on demand from the industry. The last sitting was 2017. It can be offered in other special circumstances such as the death of a licensee in a small agency. ACAPS is currently reviewing the current existing licensing system with a view to increasing its operational flexibility, and</li> <li>○ Acceptable criminal record check and similar integrity checks</li> </ul> </li> <li>• For legal entities to: <ul style="list-style-type: none"> <li>○ Be governed by Moroccan law and be based in Morocco;</li> <li>○ Have at least 50 % of the capital held by natural persons of Moroccan citizenship or legal persons governed by Moroccan law, subject to the free trade agreements concluded by Morocco with other countries, duly ratified and published in the "Official Bulletin".</li> </ul> </li> </ul> <p>If an individual licensee is convicted of a significant crime (eg fraud forgery, theft), an offence under the insurance law or a conviction handed down by a foreign court, the licence will be revoked.</p> <p>Insurers and reinsurers and brokers are required to provide ongoing training courses for Insurance Intermediaries. But there is not an ongoing professional training requirement per licensee. Insurers, reinsurers and brokers are required to report on their training programmes annually to ACAPS.</p> <p><b>Ongoing Supervision:</b></p>
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Intermediaries are subject to ongoing supervision. Articles 313 and 315 of the Law No. 17-99 specify that intermediaries are subject to the supervision of the Authority and must produce documents to report on their activities in accordance with requirements set out in a circular. Annexes 61 to 68 of Circular provide the filing requirements.

This supervision is conducted by ACAPS staff who may at any time verify the operations performed by the insurance intermediaries onsite. Intermediaries must, at all times, make qualified personnel available to the agents, to provide them with the information they deem necessary for the exercise of the supervision.

ACAPS is working to make the intermediary supervision more focussed on helping it better prioritise its own activities. This work involves the development of key indicators focused on identifying areas of risk and prioritising supervisory risk based activities.

Contraventions detected in the supervision process are reported to the intermediary (Article 316 of the Law No.17-99) and are subject to penalties the frequency of which is described below:

Insurance distribution network	Number of licensees	Number of on-sites	Number of sanctions	Number of fines/penalties
Brokers	449	75	38	4
Agents	1420	168	137	12
Banks* (and other network)	15*	0	0	0

\* 11 banks, 3 finance companies + 1 microcredit association

#### **Corporate Governance:**

There are some governance requirements applied to brokers and agencies and individuals. Legal entity agencies and brokers can only be constituted as a public limited company or limited liability company which are subject to general corporate laws.

Moreover, in the case of an insurance intermediary constituted as a legal person, the company is responsible for appointing a responsible

	<p>representative, a natural person, who must comply with certain conditions laid down in the Insurance Code.</p> <p>In addition, in accordance with Article 296 of the Insurance Code, no insurance agent may exercise his profession concurrently with a position in charge of another insurance agency or a brokerage company or as a staff member of an insurance company.</p> <p><b>Intermediary Disclosure:</b></p> <p>The rules contained in the current regulations partially meet the requirements of ICP 18.5.</p> <p>Article 3 of Law No. 31-08 on Consumer Protection Measures stipulates that "any supplier must, by any appropriate means, enable the consumer to know the essential characteristics of the product, good or service [...] and provide him with information likely to enable him to make a rational choice in the light of his needs and means".</p> <p>In addition, an information notice or draft contract describing in particular the benefits with exclusions, the related price and the obligations must be provided to the policyholder before the insurance contract is signed (Article 10 of the Insurance Code).</p> <p>In addition, all documents issued by an insurance intermediary must contain the words "Insurance intermediary governed by Law No.17-99 on the Insurance Code", as well as the number and date of the Insurance license approval in visible characters and must not contain any insertion likely to mislead the nature of the supervision exercised by the Authority, or the real nature of the insurance intermediary's activity or the real importance of its obligations.</p> <p>The current obligations do not, however, extend to the disclosure of the relationship the intermediary has with its insurers nor is information on the basis on which they are remunerated required, nor information to whether real or potential conflicts of interest exist.</p> <p>ACAPS intends to address this deficiency in an upcoming redraft of relevant insurance code provisions.</p> <p><b>Client Money Handling:</b></p> <p>The current rules governing the management of client funds by insurance intermediaries focus primarily on the client's interest and the protection of its funds. Under Article 318 of the Law No. 17-99 and a related circular, insurance intermediaries must pay the insurance premiums collected on behalf of insurance and reinsurance companies within 15 days of the month following that in which they are collected.</p>
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	<p>If premiums collected by insurance intermediaries have not been paid within the period specified above, insurance and reinsurance companies must establish a provision equal to 100 % of the above-mentioned premiums, in accordance with Article 74 of the GC.</p> <p>The penalty for intermediaries who contravene this requirement are found in Article 324 and 325. The monetary penalty can be between 2,000 – 20,000 Moroccan Dirhams.</p> <p>There is also a requirement concerning professional misconduct. Pursuant to Article 303 of the Law No. 17-99 insurance intermediaries are required to have professional indemnity insurance.</p> <p><b>Regulatory Enforcement:</b></p> <p>The Authority has the regulatory power to act against insurance intermediaries through the use of administrative penalties prescribed by the Insurance Code, as well as through the use of potential criminal sanctions. Some of the main contraventions include:</p> <ul style="list-style-type: none"> <li>• <b>Delay in the production of documents required by the regulations:</b> insurance intermediaries are liable to an administrative fine of five hundred Moroccan Dirhams for each day of delay (Article 323 of the Law No. 17-99).</li> <li>• <b>Non-compliance with the provisions of the Law No. 17-99:</b> Insurance Intermediaries may, depending on the gravity of the contravention, be subject to one of the following disciplinary sanctions (Article 324 of Law No. 17-99): <ul style="list-style-type: none"> <li>○ a warning;</li> <li>○ a formal reprimand;</li> <li>○ temporary withdrawal of the insurance license, or</li> <li>○ final withdrawal of the insurance license.</li> </ul> </li> <li>• <b>Refusal to provide the information requested by the Authority's officials:</b> An administrative fine may be imposed by the Authority (Article 325 of the Law No. 17-99).</li> </ul> <p>Law No. 17-99 also imposes criminal penalties on Insurance Intermediaries who conclude contracts on behalf of an Insurance Company that is not authorised to sell an insurance product. They are also subject to sanction if the Intermediary cover a risk without the authority or approval of the insurer.</p>
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Assessment	Largely Observed
Comments	<p>Largely Observed is mostly based on the observation that disclosure requirements on intermediaries are not sufficient to meet the requirements of the ICP.</p> <p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS strengthen the disclosure requirements on intermediaries to be more consistent with the requirements of the standard;</li> <li>• ACAPS continue to review the policy regarding branch expansions and examinations; and</li> <li>• ACAPS continue its work to ensure that future supervisory activities are more risk focused.</li> </ul>
<b>ICP 19</b>	<p><b>Conduct of Business</b></p> <p>The supervisor sets requirements for the conduct of the business of insurance to ensure customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.</p>
Description	<p>The core mission of ACAPS includes safeguarding the interests of policyholders, including their equitable treatment but at present there are significant weaknesses in the requirements for conduct of business and the fair treatment of policyholders and beneficiaries.</p> <p>The law provides some requirements that have to be met by the insurers and insurance intermediaries in the conduct of their business. However, it does not specifically require insurers and intermediaries to act with due skill, care and diligence when dealing with customers (as required by ICP 19.1).</p> <p>There is currently no specific requirement for insurers and intermediaries to establish policies on the fair treatment of customers as required by ICP 19.2 nor a requirement that directly deals with insurers and intermediaries avoiding or properly managing potential conflicts of interest they may have with the customers they serve.</p>

	<p>There are currently no requirements to avoid or properly manage any potential conflicts of interest as required by ICP 19.3</p> <p>There are requirements in place for insurers to have management agreements with agents and brokers specifying the scope and nature of the activities each party may carry out but these do not explicitly address fair treatment of consumers as required by ICP 19.4.</p> <p>Similarly under ICP 19.5, there are few specific requirements for insurers to take into account the interests of different types of consumers when developing and distributing insurance products. However, the Authority may and does require insurers to withdraw or amend insurance contracts or any contractual or advertising document relating to an insurance transaction that it believes is contrary to the provisions of the Insurance Code, or to provisions of the law for the protection of consumers (see below):</p> <ul style="list-style-type: none"> <li>• Articles 163 and 314 of Law No. 17-99 requires that all documents intended to be distributed to the public or published by an insurance company or intermediary must not contain any insertion likely to be misleading on the nature of the control exercised by the Authority or the real nature of the company or the actual significance of its commitments. Also, it must make reference to the Law 17-99 on the Insurances Code.</li> <li>• Article 21 of Law No. 31-08, enacting measures to protect the consumer, generally prohibits all advertising involving, in any form whatsoever, false or misleading allegations, indications or representations.</li> </ul> <p>In the past ACAPS used a pre-approval process to review documents, it has now moved a “file and use” approach. The requirements that insurers must follow are set out in “check lists” and include the requirement to check to see whether the level of language is clear and easy to understand. The requirement is new and ACAPS is still working on its implementation. With regard to Article 21, The Ministry of Finance is currently the authority responsible for compliance but ACAPS is in discussions about transferring the responsibility to ACAPS.</p> <p>There are few specific requirements related to information that must be provided at the pre-contractual and contractual stage as required by ICP 9.7, other than Article 10 of Law No. 17-99 which provides that prior to concluding the contract, an Insurer must deliver to the policy holder a draft contract or an information leaflet describing the main provisions of the contract.</p> <p>Similarly, there appear to be few specific requirements for the insurer or intermediary to consider the customers disclosed circumstances when selling an insurance product as required by ICP 19.8. However, there is a general provision (Article 3 of Law 31-08) requiring the provision of information that enables the consumer to know the essential characteristics of the product or</p>
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	<p>service, to enable him to make a rational choice in view of his/her needs and means.</p> <p>In regard to ICP 19.9 there are some requirements for insurers to service policies appropriately. These include Article 12 of Law No. 17-99 which requires that the insurance contract contain the time limits within which compensation is paid. Article 19 of the same law provides that when the insured risk is realised or when the contract expires, the insurer is obliged to pay the contract amount. In regard to communication with the insured of changes occurring during the life of the contract, any amendment requires the signature of the insured party (Article 11 of the Insurance Code). If an insurance contract includes a clause for tacit renewal, it must also stipulates that the insurer shall notify the insured before the due date and include information on the amount the insured is liable to pay.</p> <p>In regard to claims handling and consumer complaints (ICP 19.10 and 19.11), the Authority has the power, to investigate claims relating to insurance transactions. (Article 7 of Law 64-12), but the current Moroccan regulations do not impose a specific requirement for insurance companies to put in place board approved policies and procedures for claims handling (although this may be captured through internal control system requirements).</p> <p>Similarly, current regulations do not directly nor explicitly require insurance companies and insurance intermediaries to put in place board approved policies and procedures for dealing with complaints from their clients.</p> <p>It should be noted, however that these deficiencies are somewhat mitigated by the requirement that insurers have strong internal control systems.</p> <p>ACAPS does have policies and procedures for the protection of policyholder information (as required by ICP 19.12). In accordance with Law No. 09-08 Related to the Protection of Physical Data, the personal data requested by the insurer must be used exclusively for the purpose of underwriting the insurance contract by the services of the insurer and authorised third parties. Also, the retention period of this data is limited to the duration of the insurance contract and any subsequent period during which their retention is necessary to enable the insurer to respect its legal obligations. The National Commission for the Protection of Personal Data investigates complaints in this area and ACAPS looks at internal controls in this area as part of its normal supervisory process.</p> <p>With respect to ICP 19.13, Article 6 of Law No. 64-12 states that "the Authority shall work for the development of activities within its field of intervention and for the respect of good practices for their conduct. It shall also contribute to the promotion of education and awareness in this area".</p> <p>For this purpose, the Authority has developed several projects relating to the fair treatment and provides information to policyholders to meet this objective. For example, ACAPS provides training and workshops for intermediaries on</p>
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	fair treatment requirements. ACAPS has plans to expand its work in this area in the future.
Assessment	Partly Observed
Comments	<p>Partly Observed is based on the observation that current requirements with respect to conduct of business do not meet many of the standards of the ICP (as noted above). ACAPS is aware of these deficiencies and is working to address them through revisions to Book IV of the Insurance Code (Law No. 17-99) and other initiatives.</p> <p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS continue with current initiatives to strengthen conduct of business requirements; and</li> <li>• ACAPS consider developing overarching codes of business, conduct for insurers and for insurance brokers.</li> </ul>
<b>ICP 20</b>	<p><b>Public Disclosure</b></p> <p>The supervisor requires insurers to disclose relevant, comprehensive and adequate information on a timely basis in order to give policyholders and market participants a clear view of their business activities, performance and financial position. This is expected to enhance market discipline and understanding of the risks to which an insurer is exposed and the manner in which those risks are managed.</p>
Description	<p>Article 245-2 of Law No. 17-99 states that insurance and reinsurance companies must publish information in relation to their business activities within either the 'Bulletin Officiel' or within a legal national newspaper. The conditions for publication and the information to be detailed are fixed in an ACAPS Circular.</p> <p>All insurance and reinsurance companies supervised by ACAPS must comply with Circular No. DAPS/EA/11/18 of 31 October 2011. In line with ICP 20.10. This circular requires insurance and reinsurance companies to publish certain financial information twice a year within a newspaper of legal announcements. The documents to be published annually, prior to the Ordinary General Meeting, by no later than the 31<sup>st</sup> March following the closure of the annual accounts are:</p>

	<ul style="list-style-type: none"> <li>• Annual reports, including the balance sheet, the profit and loss account, the cash flow statement and the source and application of funds statement;</li> <li>• Statement of any exemptions/relief;</li> <li>• Statement of any changes in accounting methods;</li> <li>• The table of shareholders;</li> <li>• The table of investments;</li> <li>• The table of provisions;</li> <li>• The table of creditors;</li> <li>• The table of debtors;</li> <li>• The table of securities given or received; and</li> <li>• The table of financial commitments given or received, excluding leasing transactions.</li> </ul> <p>All documents that are published must have been verified by two auditors before publication. The statements must therefore be published alongside a certified report from the two auditors. The auditors will provide one of the following conclusions within their report, depending on the outcome of their reviews:</p> <ul style="list-style-type: none"> <li>• Confirmation that the statements provide a true and fair view of the company's results, their financial position and their asset position at the period end;</li> <li>• Qualify their opinion; or</li> <li>• They will not provide a conclusion that provides verification of the statements, ie. where they have been unable to verify the accounts provided by the company.</li> </ul> <p>Should the auditor provide one of the last two conclusions described above, they need to explain the reasons for their position. Within the 20 days following the Ordinary General Meeting, companies will need to publish in this same newspaper, a statement confirming whether there have been any adjustments made to the accounts following the meeting and if so, publish details of these adjustments.</p>
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	<p>Insurance and reinsurance companies will also need to publish half yearly information through the same means. This must take place no later than the 30th September following the end of the first half of the financial period and should include the balance sheet and the profit and loss account to date. These should also be accompanied by an auditor's statement to certify that the information within these documents has been verified or, if not, to express the auditor's reservations as to the truth and fairness of the information, detailing the reasons for this.</p> <p>Through the above, ACAPS, as the supervisor of insurance and reinsurance companies in Morocco, is requiring these firms to produce, at least annually, quantitative and qualitative information that is consistent over time and that would be comparable to other market participants. The circular also recommends that insurance and reinsurance companies publish this same information on their websites. All information must also be submitted to the Authority within 7 days from the newspaper publication.</p> <p>The legislation, under Circular No. 3/19 of February 20<sup>th</sup> 2019, also includes a requirement for listed insurance companies to publicly disclose an environment, social and governance report, as well as details on their shareholders and the legal organisation chart. However, there is no such requirement in place for unlisted companies, as required by ICP 20.9, to disclose information in relation to the firm's corporate governance and internal controls system.</p> <p>The requirements in the legislation do not specify that insurance and reinsurance companies must publish detailed information in relation to their business profile, the risks faced by the company, and the governance and control within the company. The only information that would be published in this respect would be the information that companies choose to include in their audited financial statements. Therefore, the requirements of ICP 20.1 are not fully met by ACAPS.</p> <p>There is no requirement in the legislation for insurance companies to publish information in relation to market conduct. Some companies may choose to publish information on claims and complaints, for example, on their website, but this is not compulsory. We understand that ACAPS are working on amending the insurance code to include more provisions in relation to market conduct.</p> <p>We understand that as part of Pillar III certain information that supervisors should require insurance firms to publicly disclose, but that at present the legislation does not include any such requirement for, will have to be published. These include the disclosure of the following:</p> <ul style="list-style-type: none"> <li>• Quantitative and qualitative information in relation to the firm's TPs and the calculation of these, as required by ICP 20.2.</li> </ul>
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	<ul style="list-style-type: none"> <li>• Information on capital adequacy of the firm and the management of its capital, as required by ICP 20.3.</li> <li>• Information on investments and the financial instruments in place within the firm, as required by ICP 20.4.</li> <li>• Information related to the enterprise risk management, including the asset liability management of the firm, as required by ICP 20.5.</li> <li>• The disclosure of certain segmental financial information, as required by ICP 20.6.</li> <li>• Information on material risk exposures and how these are managed by the firm, including details of the use of reinsurance and other forms of risk transfer, as required by ICP 20.7.</li> <li>• Information, including details of the nature of the business and its key products, as well as the firm's external and internal operating environment, including market conduct and complaints handling, as required by ICP 20.8.</li> <li>• Information on corporate governance structure and the internal controls in place, as required by ICP 20.9. This would include details on key functions, as well as on any outsourced services, if the firm is relying on these.</li> </ul> <p>As part of Pillar III of the risk-based solvency project, which will be used to support Pillar I, measures will be implemented to ensure the disclosure of certain information. Pillar III will cover the submission of prudential and statistical reports to the Authority, as well as publically disclosed reports. The planned date for implementation of Pillar III is 2021.</p>
Assessment	Partly Observed
Comments	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• The Authority proceed with the development of the Pillar III requirements and include the obligation for the disclosure of the quantitative and qualitative information that is required within ICP 20.2 to ICP 20.8.</li> <li>• The Authority consider including the requirement for insurance companies to publish information in relation to market conduct that would</li> </ul>

	benefit and protect consumers, including how the firm handles claims, as well as complaints.
<b>ICP 21</b>	<b>Countering Fraud in Insurance</b>  The supervisor requires that insurers and intermediaries take effective measures to deter, prevent, detect, report and remedy fraud in insurance.
Description	<p>Industry stakeholders suggest that fraud is a growing operational risk in the Moroccan insurance market particularly in the areas of auto, workers compensation and personal accident and sickness. This risk appears to be largely an external facing rather than internal facing risk.</p> <p>While there is no specific definition of insurance fraud in Moroccan law, Moroccan legislation includes a definition of fraud and provisions sanctioning fraud. Sanctions are of a criminal and a civil nature:</p> <ul style="list-style-type: none"> <li>• The penal code provides criminal sanctions for all types of fraud, including fraud in insurance,</li> <li>• The Law 17-99 (Insurance Code) provides civil sanctions —the nullity of the insurance contract for a wide variety of frauds forged by the policyholder: fraudulent description of risks when taking the insurance policy, fraudulent taking of several policies covering the same risk, intentional fraudulent claim, fraudulent claim description, etc.</li> <li>• Article 281 of the Law 17-99 provides some details of contraventions constituting fraud (eg intentional misallocation of funds).</li> <li>• Article 231 of the Law 17-99 provides sanctions for internal fraud under 281.</li> </ul> <p>Sanctions for fraud both internal and external are under the penal code and are significant. Frauds can result in significant terms of imprisonment (of 1-5 years, and a fines of 250 MAD – to 20,000 MAD or both).</p> <p>There have been approximately 2 cases of internal fraud prosecuted since 1985 resulting in criminal penalty. There have been several civil actions against insurer employees for fraud by insurance companies. External fraud events are much more frequent. The insurance federation estimates that approximately 21 % of auto claims may involve elements of fraud. Only the most serious of these and up being prosecuted in court others are dealt with by other means (eg denial of claims and nullity of policy).</p> <p>Fraud is largely controlled by insurers as an operational risk, through internal control system requirements established by ACAPs. Insurers are required to develop a risk map including insurance fraud risks. This is specified in Article 37 of the Circular No. DAPS / EA / 08/11.</p> <p>The requirements in the circular are general. Detailed requirements related specific to prevention, detection, recording and reporting of fraud have not</p>



	<p>been established. There is also a requirement for insurers to have a Code of Conduct (Internal Charter) which helps Insurer's reduce risk of fraud within.</p> <p>In regard to the regulation of insurance intermediary's activity, no specific anti-fraud requirements are presently in place but insurers are required to assess and monitor this risk in their distribution networks. Controls over \ intermediaries often have requirements intended to mitigate fraud risk.</p> <p>The Moroccan Insurance Federation carries out information sharing related to fraud and maintains a list of individuals who have been engaged in fraud in the past and which is accessible to members. It also actively reviews claims data to identify fraud trends and shares this information with insurers.</p> <p><b>Supervisory Practices:</b></p> <p>In addition to dealing with complaints related to fraud and monitoring wrongful transactions, ACAPS assesses the effectiveness of insurer practices and controls through regular supervisory processes.</p> <p>The supervisory knowledge of fraud is not extensive and ACAPs intends to improve its knowledge through training overtime. A specific area of interest is cyber risk. It has conducted targeted reviews of some fraudulent practices in the industry.</p> <p>ACAPS has the capacity of exchanging information with law enforcement authorities on Fraud. ACAPs has not had opportunity to do this frequently.</p>
Assessment	Partly Observed
Comments	<p>Partly observed is based on the observation that knowledge and requirements with respect to fraud risk should be significantly improved.</p> <p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• More detailed requirements with respect to prevention, detection, recording and reporting fraud risk be considered, particularly with respect to insurance intermediaries.</li> <li>• ACAPS work to increase its understanding of the fraud risk over time, Additional training for staff and industry on fraud risk be considered, including areas like the potential of cyber fraud and cyber risk.</li> <li>• ACAPS encourage the industry and insurance federation to expand their public information activities to make the public more aware of the impact of fraud on the cost of insurance for policyholders.</li> </ul>

<b>ICP 22</b>	<b>Anti-Money Laundering and Combating the Financing of Terrorism</b>  The supervisor requires insurers and intermediaries to take effective measures to combat money laundering and the financing of terrorism. In addition, and the supervisor takes effective measures to combat money laundering financing of terrorism.
Description	<b>Legal and Institutional Framework:</b>  The legislative framework for AML-CFT is established under Law No 43-05. The law is intended to establish AML-CFT obligations on the following groups: <ul style="list-style-type: none"> <li>• Credit institutions and similar organisations;</li> <li>• Banks and offshore holding companies;</li> <li>• Financial companies;</li> <li>• Intermediation companies in the field of transfer of funds;</li> <li>• Exchange offices;</li> <li>• Insurance and reinsurance undertakings and intermediaries in insurance and reinsurance;</li> <li>• Companies managing financial assets;</li> <li>• Stockbroking companies;</li> <li>• Auditors, external accountants and tax advisers;</li> <li>• Members of the legal profession engaged in financial business;</li> <li>• Persons operating or managing casinos or gambling establishments;</li> <li>• Real estate agents and intermediaries, engaged in the purchase or sale of real estate for their customers;</li> <li>• Dealers in precious stones, metals, antiques, and artwork for transactions above a specified limit;</li> <li>• Service providers involved in the creation; and</li> <li>• Organisation and domiciliation of companies.</li> </ul>

	The law also establishes a number of organisations as supervisory and monitoring authorities for different parts of the financial sector including the following:	
	<b>Supervisory Authority</b>	<b>Main Areas of Responsibility</b>
	The Central Bank of Morocco	Banks, credit institutions, financial companies, money or value transfer services
	ACAPS	Insurance and reinsurance companies and intermediaries
	The Moroccan Authority for Capital Markets	Brokerage firms, assets management companies, Financial investment advisors.
	The Exchange Office	Currency exchange companies
	Ministry of Justice	Lawyers involved in financial transactions
<p>In addition, the Law establishes the Financial Information Processing Unit (UTRF) which serves as a coordinator for AML-CFT programmes and a focal point for the national AML system. UTRF receives suspicious transactions reports and other information and collects, analyses and disseminates financial intelligence for investigation and coordination of activities. In addition, it acts as the AML supervisor for several non-financial institution reporting entities like casinos, real estate agents and dealers in precious metals.</p> <p>As the designated AML-CFT supervisory authority for insurers, reinsurers and intermediaries, ACAPS has the authority to regulate, supervise AML-CFT risks. Its powers include the ability to issue bulletins, circulars and legally enforceable directives under the authority entrusted to it and issue sanctions related to AML-CFT contraventions.</p> <p><b>Recent Developments in the AML-CFT System</b></p> <p>In 2016, Morocco initiated a National Risk Assessment (NRA) of AML-CFT risks following the formation of a national committee entrusted to supervise the process. ACAPS was a member of the national committee. The NRA process initiated was the first of its kind in Morocco and was intended to provide the authorities with better information on AML-CFT risks in order to assist in their management.</p> <p>With respect to insurance, the main objectives of the exercise were to:</p>		

	<ul style="list-style-type: none"> <li>• Better define the products and/or operations most vulnerable to AML -CFT risks within the insurance sector;</li> <li>• Evaluate the impact of supervisory actions on the vulnerabilities;</li> <li>• Define the vulnerabilities regarding supervision and compliance with AML / CFT provisions at the sector level;</li> <li>• Compare the level of vulnerability of the insurance sector to other sectors;</li> <li>• Set up an action plan to resolve the vulnerabilities, and consequently allocate the necessary resources; and</li> <li>• Put in place coordination mechanisms to carry out the work.</li> </ul> <p>To carry out its work the NRA relied on several sources of information including:</p> <ul style="list-style-type: none"> <li>• Analysis of the regulation applicable to the AML / CFT in the insurance sector;</li> <li>• Questionnaires sent to all insurance companies focusing on their internal anti-money laundering and terrorist financing systems;</li> <li>• The results of onsite checks carried out with the operators;</li> <li>• Interviews with the operators' governing bodies and periodic and ad hoc consultations with sector professionals;</li> <li>• Internal compliance reports; and</li> <li>• Sector statistics prepared by the Authority.</li> </ul> <p>The NRA was completed in 2018 and its report including several insurance related recommendations. At that time, ACAPS initiated an action plan to address perceived deficiencies in its framework. Subsequent to the completion of the NRA, Morocco was subject to an AML-CFT assessment. The assessment was conducted by the Middle East and North Africa Financial Action Task Force For Combating Money Laundering and Terrorist Financing (MENAFATF). The evaluation was based on measures in place in March, 2018.</p> <p>The assessment included an analysis of the level of compliance with the FATF 40 recommendations and the level of effectiveness of Morocco's AML/CFT system. It also included recommendations on how the system could be strengthened. The report was adopted by the MENAFATF Plenary session in April 2019.</p>
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	<p>In general, the assessment found that Morocco had a limited understanding of some AML-CFT risks and the present NRA needed to be updated in terms of approach and content. It also needed better consideration of some sectors which attract criminal proceeds such as the free zones in Tangier and Casablanca which have not been placed under the AML risk assessment.</p> <p>Some of its specific findings with respect to insurance supervision include:</p> <ul style="list-style-type: none"> <li>• There is a significant need to increase ACAPS understanding of AML-CFT risks;</li> <li>• The supervisory approach with respect to AML-CFT is very simple and a more risk-based supervisory approach to the assessment of AML - CFT risks in the insurance sector should be developed and implemented;</li> <li>• There is a need to increase the number of on-site examinations or control missions dedicated to the AML;</li> <li>• There is a need to amend sanctions provisions to ensure their impact is proportionate and dissuasive on entities that contravene AML-CFT requirements; and</li> <li>• There is need to improve some aspects of the framework for granting insurance authorisation (eg suitability requirements of major shareholders - the assessment recommended that ACAPS should institute fit and proper requirements for shareholders of insurance entities).</li> </ul> <p>ACAPS has subsequently revised its Action Plan and is taking further steps to address many of the specific concerns and issues identified in the NRA and the FATC assessment. The Action plan includes:</p> <ul style="list-style-type: none"> <li>• Development of AML-CFT guidance for insurance industry participants including a guideline, seminars and support activities;</li> <li>• Training on AML-CFT risks to increase the understanding of ACAPS staff;</li> <li>• Development of a more Risk-Based approach to AML-CFT supervision and an AML-CFT Control Guide for ACAPS staff;</li> <li>• Greater analysis of the levels of risk exposure for different AML-CFT risks facing insurance operators;</li> <li>• Development of new AML-CFT reporting requirements for insurance operations; and</li> <li>• Proposed revisions to regulatory requirements for insurance industry operators in the form of a new draft AML-CFT Circular.</li> </ul>
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	<ul style="list-style-type: none"> <li>• Actions to increase information sharing, exchange and supervisory coordination in managing AML CFT including: <ul style="list-style-type: none"> <li>◦ A new MOU with UTRF dealing with coordination and information exchange between the two bodies (completed in June 2019); and</li> <li>◦ Greater cooperation and coordination with the other national supervisory authorities in areas of shared interest like Bancassurance.</li> </ul> </li> <li>• Increasing onsite on supervised entities.</li> <li>• More active use of sanctions against non-compliant operators (one insurance company and eight intermediaries).</li> </ul> <p>Many of these initiatives are new. Some have been implemented; others are in the early stages of development and/or implementation. It will take several months to determine their full impact on the sector though there have been some promising early indications. 33 onsite inspections in AML have been conducted since 2018.12 Suspicious transaction reports have been received and investigated by November 2019. One insurer has been sanctioned as have eight intermediaries.</p> <p>In addition, it should be noted that Morocco has increased its commitment and is currently strengthening the General AML-CFT law with a view to addressing the general deficiencies described above.</p>
Assessment	Largely Observed
Comments	<p>Largely Observed is based on the observation that while ACAPS has significantly increased its focus on AML-CFT and recently instituted significant changes to its AML CFT programme, it is too early to determine, whether these measures will fully address the significant deficiencies described above.</p> <p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS continue to implement its action plan;</li> <li>• ACAPS work to address anomalies in the system such as the timeliness of reporting on the nature and characteristics of Suspicious Transactions Reports;</li> </ul>

	<ul style="list-style-type: none"> <li>Supervisory resources for AML-CFT within the authority be increased and training programmes for ACAPS staff and industry on AML-CFT be maintained; and</li> <li>The entire framework be periodically reviewed in the future to ensure it meets its intended objectives.</li> </ul>
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<b>ICP 23</b>	<b>Group-wide Supervision</b>  The supervisor supervises insurers on a legal entity and group-wide basis.
Description	<p>The current legislation does not provide for the definition of an insurance group, nor does it include a framework for the identification of an insurance group. The regulations do not provide a framework for group-wide supervision and at present, ACAPS is not carrying out the role of group supervisor for any insurance groups, and as such, is not exercising group supervision.</p> <p>Article 243 of the insurance code states that should ACAPS consider it necessary for their supervisory work, they can extend their supervision to insurance and reinsurance companies which the company controls, either directly or indirectly, through holding more than 50% of the capital or of the voting rights. Supervision can also be extended to companies with which the supervised entity has a management agreement, reinsurance agreement or any other type of agreement that is likely to affect the operating or decision-making autonomy of its business activities. This supervisory extension also applies to foreign subsidiary entities as long as the law in the foreign country does not disallow this.</p> <p>The above provision only applies to the supervisor where the aim is to assess the financial situation of the supervised insurance or reinsurance company and where the supervisor needs to assess the company's compliance with its commitments to policyholders and the beneficiaries of contracts with which it holds agreements. The</p>

	<p>legislation does not provide for full consolidated group supervision of entities within the group.</p> <p>ACAPS contributes to the supervision of financial conglomerates within Morocco, alongside the other supervisors of the Moroccan financial sector. The legislation provides for the coordination of the supervision of financial conglomerates between the financial sector authorities.</p> <p>ACAPS does participate in one supervisory college but the agreement expires at the end of 2019. There are also MoUs in place between ACAPS and the French Prudential Supervision and Resolution Authority (ACPR), ACAPS and the Conférence Interafricaine des Marchés d'Assurance in French West Africa (CIMA), and ACAPS and the General Insurance Committee in Tunisia (CGA).</p> <p>These impact on the supervision of groups, facilitating cooperation between the respective parties but these requirements may be useful for supervision of groups, they fall short of the requirements of the ICP.</p>
Assessment	Not Observed
Comments	<p>Not Observed is based on the observation that the current legislation does not provide for the definition of an insurance group, nor does it include a framework for the supervision of an insurance groups.</p> <p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPs develop a framework for supervision of insurance groups along with other affected supervisors.</li> <li>• In addition, ACAPS should review its powers to control risk and capital transfer between members of financial groups.</li> </ul>
<b>ICP 24</b>	<p><b>Macroprudential Surveillance and Insurance Supervision</b></p> <p>The supervisor identifies, monitors and analyses market and financial developments and other environmental factors that may impact insurers and insurance markets and uses this information in the supervision of individual insurers. Such tasks should, where appropriate, utilise information from, and insights gained by, other national authorities.</p>



Description	<p>The macroprudential framework currently in place in Morocco for the insurance sector contains several important elements:</p> <ul style="list-style-type: none"> <li>• From an institutional standpoint, there is a cross-sectoral committee (CCSRS, see below) which coordinates the actions taken by its members (among them, ACAPS);</li> <li>• Several analyses are performed by ACAPS solely or jointly with the other financial sector supervisors of the CCSRS; and</li> <li>• Micro and macro-stress testing exercises are conducted to assess trends, potential risks and impacts;</li> </ul> <p>However, the framework is not yet fully developed and is missing several key components, such as early warning indicators of crisis, the identification of systemically important insurers or macroprudential early intervention measures that could be activated by ACAPS or the CCSRS.</p> <p><b>Macroprudential institutional framework</b></p> <p>The Committee for Coordination and Surveillance of Systemic Risks (Comité de Coordination et de Supervision du Risque Systémique, CCSRS) is in charge of macroprudential supervision of the financial system. Established by Article 108 of Law 103-12, it brings together Bank-al-Maghrib (BAM, the central bank, which is also the banking supervisor), the financial market authority (Autorité marocaine du marché des capitaux, AMMC) and ACAPS, as well as representatives of the finance ministry when certain topics are dealt with. The CCSRS is chaired by BAM's Governor and its secretariat is provided by BAM's macroprudential surveillance department. It usually meets twice a year, but additional ad-hoc meetings can be held if need be. During the meetings, each authority presents the analysis of the sector it is in charge of. For example, ACAPS's chair shares the risk analysis and indicators relevant for the insurance sector with the other members of the Committee. Press releases are issued at the end of CCSRS's meetings and a financial stability report is published once a year.</p> <p>The CCSRS has the following main missions:</p> <ul style="list-style-type: none"> <li>• Coordinates the actions of its members regarding the supervision of the entities subject to their control;</li> <li>• Coordinates the surveillance of financial conglomerates;</li> <li>• Identifies systemically important financial institutions and coordinates the regulation and supervision applicable to them;</li> <li>• Analyses the situation of the financial sector and assesses systemic risks;</li> </ul>
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	<ul style="list-style-type: none"> <li>• Ensures implementation of all measures to prevent systemic risks and mitigate their effects;</li> <li>• Coordinates actions aiming at crisis resolution for all systemically relevant entities subject to their control; and</li> <li>• Coordinates information exchanges with foreign bodies entrusted with similar tasks.</li> </ul> <p><b>Analyses performed by ACAPS and other authorities</b></p> <p>There is a dedicated team within ACAPS in charge of macroprudential surveillance and analysis.</p> <p>ACAPS collects data from various sources, such as insurers and reinsurers' statistical reporting (detailed in Article 100 of the GC), BAM or the National Statistics Agency.</p> <p>ACAPS issues monthly, quarterly, half-yearly and yearly statistical reports. These reports contain information on TPs, premiums, solvency margins, investments, etc. for insurance and reinsurance companies</p> <p>Based on the statistical reports, ACAPS has developed indicators computed on a market aggregated basis to assess the robustness of the insurance sector, such as solvency margin coverage rate, market risk, counterparty default risk, liquidity risk, technical and general profitability.</p> <p>These indicators are compiled within a risk map and assigned a score based on an expert judgement (carried out by ACAPS's macroprudential team and validated by ACAPS's chair) and their evolution over time.</p> <p>At this stage, ACAPS has not yet performed horizontal or thematic reviews.</p> <p>ACAPS publishes an annual report on the insurance sector which contains aggregated market data as well as a sectoral breakdown (non-life main business lines, life, market...) on written premiums, market shares, TPs, technical results, combined ratios, claim/premium ratios, investments, etc. This annual report is essentially descriptive and does not contain neither impact assessments nor does it have a financial stability focus.</p> <p>In addition, ACAPS performs both micro and macro annual stress tests.</p> <p>The micro stress test aims at assessing the impact on insurance companies of a stock market shock and a real-estate shock.</p>
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	<p>Once the identification of relevant risks to the insurance sector is conducted by ACAPS's macroprudential team and validated by ACAPS's Chair, the macro stress test is carried out, based on two scenarios over a two-year period:</p> <ul style="list-style-type: none"> <li>• A base scenario with a set of economic and financial variables on the one hand (interest rates...), and variables specific to the insurance sector on the other hand (mortality, policy lapses...) which are consistent with the projection of a likely path; and</li> <li>• An extreme scenario involving adverse conditions for all variables.</li> </ul> <p>The goal of the macro stress test exercise is to identify which plausible risks and adverse scenarios would weigh on the financial stability of the insurance sector and the robustness of insurers (in terms of solvency coverage) and to quantify their effects. It aims at assessing the resilience of the insurers to economic, financial and insurance sector shocks.</p> <p>The micro and the macro stress test exercises are carried out independently by ACAPS's staff. As part of CCSRS, ACAPS cooperates and exchanges information and insights with other national supervisors. The cross-sectoral structure of CCSRS allows ACAPS to benefit from macro-financial and market-wide analyses.</p> <p>A Financial Stability Report (FSR), jointly prepared by BAM, ACAPS and AMMC, is published annually. It contains, inter alia, an analysis of the robustness of insurance companies based on various indicators and on the results of the micro and macro stress tests.</p> <p>At this stage, the interactions between the micro and macro prudential frameworks are beginning to be taken into account. For example, interconnections between financial institutions as well as contagion indices are presented in the FSR. However, the macroprudential perspective does not yet properly feed into microprudential supervision (enhanced supervision or early intervention not yet in place for systemic insurers for example).</p> <p><b>Amendment of the Insurance Code</b></p> <p>Draft amendments of the Insurance Code (Law No. 17-99) and of the Act 64-12 establishing ACAPS are currently under consideration. The proposed legislation is expected to give ACAPS the mission of contributing to national financial stability (within the CCSRS) and with the powers to identify systemically important insurers, take early intervention measures as well as establish recovery plans for systemic insurers, take crisis management and crisis resolution actions (please see below).</p> <p><b>Identification of systemically important insurers</b></p> <p>There is currently no framework or process in place to assess the potential systemic importance of insurers. The method and criteria for the identification of systemically</p>
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	<p>important insurers are being examined by ACAPS's staff. The identification is supposed to be included in the future amendment of the Insurance Code and the criteria are supposed to be detailed in a circular.</p> <p><b>Early intervention measures and recovery and resolution plans</b></p> <p>There is currently no framework, process or toolkit containing macroprudential early intervention measures. Even if the Insurance Code contains provisions about individual insurers' recovery plans (art. 254 in particular), there is currently no framework for establishing recovery planning for macroprudential purposes (systemic insurers). Similarly, apart from the CCSRS's role of coordination in case of a crisis, resolution planning does not exist as such for the insurance sector. Such a framework is currently being developed by ACAPS's staff. It is supposed to be included in the future amendment of the Insurance Code.</p>
Assessment	Partly Observed
Comments	<p>Partly Observed is based on the following observations:</p> <ul style="list-style-type: none"> <li>• Even though aggregate indicators have been established for the insurance sector, thematic and horizontal reviews across the sector do not yet exist;</li> <li>• The identification of systemically important insurers has not yet been implemented;</li> <li>• In case systemic risk materialises, there is currently no macroprudential early intervention measures available in the supervisory toolkit of ACAPS; and</li> <li>• A recovery and resolution framework is not yet in place.</li> </ul> <p>It is recommended that ACAPS:</p> <ul style="list-style-type: none"> <li>• Finalize the development of the framework for identifying systemically important insurers and to include it in the amendments of the Insurance Code;</li> <li>• Finalise the development of the recovery and resolution frameworks and to include them it in the amendments of the Insurance Code. In particular, consideration should be given to clarifying the conditions and scope of action between the existing recovery planning mechanism in the Insurance Code and the one envisaged in the draft amendment;</li> <li>• Finalise the development of a toolkit of macroprudential early intervention measures, such as an enhanced supervisory framework for systemically important insurers or the power for authorities to intervene in certain circumstances (for example, the possibility to impose restrictions on lapses for</li> </ul>

	<p>life-insurance contracts) and to include this toolkit in the amendment of the Insurance Code;</p> <ul style="list-style-type: none"> <li>• Give consideration to the future institutional arrangements and build a clear legislative and regulatory macroprudential framework which explicitly sets out the missions and powers of ACAPS in this respect, and how its missions and powers will be articulated with those of the CCSRS; and</li> <li>• Incorporate a macroprudential perspective into microprudential supervision;</li> <li>• Continue working on interconnections and contagion risk, both through a cross-sectoral and intra-sectoral perspective.</li> </ul>
<b>ICP 25</b>	<p><b>Supervisory Cooperation and Coordination</b></p> <p>The supervisor cooperates and coordinates with other relevant supervisors and authorities subject to confidentiality requirements.</p>
Description	<p><b>Ability to Establish Supervisory Cooperation:</b></p> <p>As noted in ICP 3, Article 5 of Law 64-12 allows ACAPS to conclude agreements with supervisors from foreign states, “subject to the approval of the Administration”.</p> <p>Several agreements have been concluded to date; four of them explicitly provide for cooperation between supervisors and define the procedures for exchanging information. ACAPS is currently not a signatory of the IAIS Multilateral Memorandum of Understanding (MMoU). In addition, no group supervision is currently conducted in Morocco, even though the MoU between ACAPS and some of its counterparts (CGA in Tunisia and ACPR in France) provides for this possibility.</p> <p>At National level, as mentioned in ICP 24, ACAPS is a member of the Committee for Coordination and Surveillance of Systemic Risks (CCSRS) and cooperates and coordinates with relevant authorities (Central Bank, financial market authority, finance ministry).</p> <p><b>Cross-border Activities of Insurance Companies in Morocco:</b></p> <p>There are currently four groups headquartered in Morocco with foreign insurance subsidiaries: Atlanta, RMA Watanya, Saham Insurance, Wafa Insurance. Saham Insurance is a subsidiary of Sanlam Group, headed in South Africa. So far, no supervisory college has been established with ACAPS having the role of the Group Supervisor, and there are presently no provisions that require such colleges be established.</p>

	<p>There are eight Moroccan insurers that are subsidiaries of foreign groups: Allianz Maroc, Wafa IMA Assistance, La Marocaine Vie (Société Générale), RMA Assugance (Assurances du Crédit Mutuel), RMA Assistance (Groupama), Euler Hermes Maroc, Saham (Sanlam).</p> <p>ACAPS participated, as a member, in the supervisory college organised by the Prudential Authority in South Africa for Sanlam Group. ACAPS is not a member of other supervisory colleges because the size of the Moroccan subsidiaries is below the significance thresholds. However, ACAPS provides any information requested by a Group Supervisor in case the MoU between them allows for it.</p>
Assessment	Partly Observed
Comments	<p>Partly Observed is based on the following observations:</p> <ul style="list-style-type: none"> <li>• ACAPS has concluded agreements with supervisors from foreign jurisdictions;</li> <li>• ACAPS is member of the Committee for Coordination and Surveillance of Systemic Risks (CCSRS) where it cooperates and coordinates with other relevant supervisors and authorities;</li> <li>• ACAPS participated in the supervisory college organised by PA South Africa;</li> <li>• cooperation and coordination on group supervision cannot be established as no group supervisory framework currently exists.</li> </ul> <p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS consider establishing provisions on group supervision (see ICP 23);</li> <li>• ACAPS consider establishing and participating in supervisory colleges for the groups headquartered in Morocco (see ICP 23).</li> </ul>
<b>ICP 26</b>	<p><b>Cross-border Cooperation and Coordination on Crisis Management</b></p> <p>The supervisor cooperates and coordinates with other relevant supervisors and authorities such that a cross-border crisis involving a specific insurer can be managed effectively.</p>
Description	The current regulatory framework for the insurance sector contains a few elements on cross-border cooperation and coordination but several key building blocks are

	<p>missing, in particular regarding group-wide supervision, colleges of supervisors and crisis management.</p> <p><b>Cross-border Cooperation:</b></p> <p>According to Article 5 of Law 64-12, ACAPS is empowered, “subject to the approval of the Administration”, to conclude bilateral or multilateral agreements with its counterparts from foreign jurisdictions to outline the conditions under which each party can transmit and receive information useful to their missions. Various conventions and memoranda of understanding (MoU) have been signed in this regard (see ICPs 3 and 25 for details) and communication channels have been established with the main foreign counterparts (ACPR, CIMA, CGA ...). However, crisis management is not explicitly dealt with in these MoU.</p> <p>ACAPS is currently not a signatory of the IAIS Multilateral Memorandum of Understanding (MMoU).</p> <p><b>Insurance Groups and Group-wide Supervision:</b></p> <p>The current legislation does not provide for the definition of an insurance group (see ICP 23 for details).</p> <p>Moreover, it does not set up a framework for group-wide supervision (see ICPs 23 and 25 for details). Therefore, ACAPS does not carry out the role of group supervisor for any insurance group headed in Morocco (see ICPs 23 and 25). However, some MoU between ACAPS and its counterparts provide for the possibility, if applicable, to establish supervision at the level of the group and to create a supervisory college (see ICP 23 for details).</p> <p>ACAPS participated, as a member, in one supervisory college (see ICP 23).</p> <p><b>National Cooperation:</b></p> <p>In 2012, a MoU was signed between Moroccan supervisory authorities regarding crisis management. A “crisis committee” was established. The MoU has not been updated since then.</p> <p>As a member of the Committee for Coordination and Surveillance of Systemic Risks (CCSRS) which is in charge of macroprudential supervision of the financial system (see ICP 24 for details), ACAPS works and coordinates with other Moroccan supervisors and authorities (eg Bank Al Maghrib, AMMC). Among other tasks, the CCSRS coordinates actions aimed at crisis resolution for all systemically relevant entities. Even though the CCSRS coordinates information exchanges with foreign bodies entrusted with similar tasks, its missions are primarily focused on cross-sectoral macroprudential surveillance and crisis resolution at the national level.</p> <p><b>Crisis Management</b></p>
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	<p>Article 254 of the Insurance Code (Law No. 17-99) provides for a recovery plan mechanism when the financial situation of an individual insurer may not enable it to fulfil its commitments. This article does not, however, contain provisions in terms of cross-border crisis management.</p> <p>Article 263 of the Insurance Code stipulates that an insurance company may, once its recovery plan has been approved by ACAPS, receive financial assistance from the Insurance Solidarity fund. However, there is no mechanism for coordination at the international level.</p> <p>According to the Rules of Procedure of the CCSRS, in the event of a systemic financial crisis, the CCSRS coordinates the actions of its members and communicates its analysis to the “crisis committee”, headed by the Minister for Finance. However, the policy framework is primarily at the national level.</p> <p>The current legislation does not contain specific provisions to establish crisis management procedures for Moroccan insurance groups. More generally, there are no requirements for insurers to set up crisis management plans and procedures.</p> <p><b>Amendment of the Insurance Code</b></p> <p>A draft amendment of the Insurance Code is currently being considered. The new version of the Insurance Code contains provisions to grant ACAPS the possibility to take measures in terms of:</p> <ul style="list-style-type: none"> <li>• Internal crisis recovery plan (for systemically important insurers) ;</li> <li>• Early intervention;</li> <li>• Crisis management; and</li> <li>• Crisis resolution.</li> </ul> <p>However, the current draft does not explicitly mention the case of cross-border crisis management.</p>
Assessment	Partly Observed
Comments	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>• ACAPS and its foreign counterparts consider adding provisions regarding crisis management in its MoUs;</li> </ul>



	<ul style="list-style-type: none"><li>• the MoU signed in 2012 regarding crisis management be updated and that the mention to the “crisis committee” be deleted in the CCSRS’s Rules of procedure, since the CCSRS has become the relevant body for national crisis management;</li><li>• consideration be given to clarifying the conditions and scope of action between the existing recovery planning mechanism in the Insurance Code and the one envisaged in the draft amendment (see ICP 24);</li><li>• ACAPS develop crisis management tools and procedures, both at the national level, as part of the CCSRS, and at the international level, with its foreign counterparts, in case of a cross-border crisis;</li><li>• ACAPS ask cross-border insurers (Moroccan groups with subsidiaries outside Morocco or Moroccan entities which are subsidiaries of foreign groups) to develop their own crisis management tools and procedures, to be used in a going- and gone-concern situations; and</li><li>• ACAPS take advantage of the current revision of the Insurance Code to add specific provisions regarding cross-border recovery planning, crisis management and crisis resolution.</li></ul>
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## **The Authorities' response to the Assessment**

The Authority would like to thank the MAP assessment team for their efforts and valuable input throughout the assessment. The ACAPS greatly appreciates the opportunity to be assessed by the expert team against the ICPs. The entire Assessment process has provided an opportunity for the ACAPS to thoroughly review the insurance regulatory framework of Morocco.

The Authority agrees with the main findings of the assessment, which we consider to be fair and comprehensive. The analysis was conducted in a careful manner and contains many constructive comments and recommendations.

The Authority has been assessed as Largely Observed or Partly Observed for the majority of the ICPs and we will consider in detail all the valuable comments and recommendations to further improve our regulatory and supervisory framework.

While many of the suggestions for improvement that have been identified are already being addressed, some recommendations may need a deeper and further analysis before being implemented. For instance, two topics raised some questions and need a deeper analysis on ACAPS side.

**ICP2 Supervisor:** Recommendation regarding improving the legal protection of ACAPS staff in the good faith exercise of their responsibilities.

ACAPS staff already have a legal protection in the good faith exercise of their responsibilities by virtue of the Civil Code (Dahir of Obligations and Contracts). The Civil Code states that the employer (ie. ACAPS) is responsible and liable for the acts of its employee in the context of the exercise of his functions.

ACAPS asked for a legal opinion on this matter. The legal opinion concluded that the current level of protection provided for ACAPS agents in the exercise in good faith of their duties protects ACAPS agents from being personally liable for actions taken and/or omissions made while discharging duties in good faith.

**ICP 7 Corporate Governance:** ACAPS should develop and enforce more specific requirements for insurer corporate governance and internal controls to more closely mirror the requirements of the ICPs.

We understand that regulatory requirements regarding corporate governance should be enhanced in order to fully observe the ICPs. Many new requirements have been introduced in the new Risk Based Solvency framework. ACAPS will also assess the opportunity to enforce new requirements in the context of the RBS project or in another regulatory new project.

## References

IAIS, *Insurance Core Principles and Methodology*, including amendments up to November 2018, available at the IAIS web site [www.iaisweb.org](http://www.iaisweb.org).

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## Annex 1 - Overview – Institutional and Macprudential Setting

### Geography and Population:

**41. The Kingdom of Morocco has an area of 710,850 square kilometres and has a population of over 35 million people.** It is the only African country with both Atlantic and Mediterranean coastlines. The majority of Morocco's population lives to the west of the Atlas Mountains, a large range that separates the country from the Sahara Desert. The country's largest city and commercial centre is Casablanca, on the Atlantic coast, with a population of over 3 million residents. The political capital is Rabat, which has a metropolitan population of 1.4 million. Other major cities include Tangier, the religious centre of Fez, and the tourist centre of Marrakech.

**42. Morocco is a demographically young country.** The median age of Moroccans was 29 years in 2018, with a life expectancy of approximately 77 years. Nearly 99% of Moroccans are Sunni Muslims, primarily of Arab-Berber ethnic background. The urban population of Morocco is approximately 58% of the total population and is growing at approximately 2% per year.

### Economy:

**43. Agriculture is a major driver of the Moroccan economy.** This sector employs nearly 37% of the workforce and contributes to 12% of GDP. Barley, wheat, citrus fruits, grapes, vegetables, olives, and livestock are the country's main crops. Industry contributes to 26 % of the GDP and employs approximately 20% of the workforce. The major sectors are textiles, leather goods, food processing, oil refining and electronic assembly. Some new industrial sectors have also had an important impact recently, helping reduce the country's dependence on agriculture. These include: chemical industries, automotive parts, computers, electronics and aerospace industry. The services sector accounts for slightly less than half of the GDP and employs approximately 44 % of the workforce. It is led by real estate and tourism.

**44. In recent years, the Moroccan economy has been characterised by macro-economic stability and low levels of inflation.** It is an export-oriented economy and has recently been impacted by a significant increase in private investment and tourism. In 2018, Morocco was ranked 60 among 190 economies by the World Bank in its annual Ease of Doing Business Survey. Economic

Growth was expected to reach 3.2% in 2018 and the IMF expects the growth rate to remain at the same level in 2019. Unemployment, which had been rising in recent years, fell slightly in 2018 to 9.5%, according to the IMF. The poverty rate is high in comparison to many countries in the Mediterranean region. There are also large differences in the levels of development found in the country's different regions.

### **Legal System and Courts:**

**45. Morocco is a constitutional monarchy with an elected parliament and a mixed legal system of civil law, based mainly on French law, and some influence from Islamic law.**

Parliament is responsible for enacting laws, controlling the actions of the government, and evaluating public policy. The Parliament is composed of two chambers: the Chamber of Representatives and the Chamber of Counsellors. The members of the Chamber of Representatives are elected for five years by universal direct suffrage. The members of the Chamber of the House of Counsellors are elected for six years by indirect universal suffrage.

**46. Under Article 82 of the Moroccan constitution, the courts are independent from the Legislative and the Executive arm of government with the King as the guardian of their independence.** The system includes three tiers of courts:

- Courts of First Instance;
- The Court of Appeal; and
- The Supreme Court (Cour de Cassation).

**47. Courts of first instance exercise general jurisdiction over civil, social and commercial matters, and hear personal status and real property cases.** These courts also hear criminal cases involving petty offences and misdemeanours, and offenses which are punishable by a sentence of more than one month in prison and a fine of more than 1,200 MAD. The Courts of Appeal hears appeals filed from courts of first instance. The Court of Appeal includes a criminal division, which hears crimes punishable by death, imprisonment, temporary confinement, assigned residence or the loss of civic rights. The Supreme Court has the authority to hear appeals from courts of first instance and the Court of Appeal.

**48. There are also a number of special courts. Commercial courts hear disputes over matters related to commercial contracts.** They have the power to resolve cases involving sums of less than 10,000 MAD and act as a court of first instance for larger disputes. There are also local courts with the authority to resolve disputes involving less than 1,000 MAD. There is an administrative court that deals with issues related to administrative decisions. There is also a special court for cases in which Magistrates or civil servants have been accused of wrongdoing. Finally, there is a Royal Armed Forces Permanent Tribunal, which deals with cases such as illegal possession of firearms or cases involving military personnel.

#### **Institutional Framework and Arrangements:**

**49. Financial sector regulation in Morocco is the responsibility of three main authorities, each with its own sector-specific legislation.** Insurance and private sector pensions are the responsibility of ACAPS. Banking is supervised by the Bank Al Maghrib (Central Bank), and securities and related financial instruments are regulated by the Moroccan Capital Markets Authority (Autorité Marocaine du Marché des Capitaux – AMMC). These authorities operate with considerable autonomy but there is cooperation and some overlap in powers and responsibilities with respect to financial groups and financial stability issues.

**50. A dedicated committee for financial stability has been established entitled the Committee for Coordination and Surveillance of Systemic Risks (Comité de Coordination et de Surveillance des Risques Systémiques – CCSRS).** The supervisors of the financial sector are represented in this committee (Central Bank – Bank Al Maghrib, AMMC & ACAPS) alongside the Ministry of Finance. CCSRS is responsible for the coordination of macro prudential measures to foster the stability of the financial sector.

**51. ACAPS is an independent authority established under Law No. 64-12 in 2014 as a legal entity governed by public law.** The regulatory and supervisory requirements for insurance are primarily established under Law 17-99 and subordinate legislation. Law N° 17-99. It is organised in five books:

1. Book 1: Insurance Contract;
2. Book 2: Compulsory Insurance Products;

3. Book 3: Insurance and reinsurance companies;
4. Book 4: Presentation of insurance operations (distribution); and
5. Book 5: Other.

**52. ACAPS is overseen by a Board whose members include the President of the AMMC, three independent members, a representative from Government (Ministry of Finance) and a representative from the Supreme Court (Cour de Cassation).** The Board is chaired by ACAPS' Chairman who is responsible for the management and the direction of the Authority. He is assisted in his responsibilities by a Secretary General who, under the authority of the Chairman, ensures coordination between the departments of the Authority and exercises powers and functions assigned to him by the President. ACAPS reports to the Chief of the Government through a publicly available annual report on its activities and publicly available reports on the sectors it supervises (insurance and social welfare).

**53. Alongside the higher-level governance bodies of ACAPS (The Board and The President), two advisory bodies are provided for in the law: the Regulatory Commission and the Disciplinary Commission:**

- The Regulatory Commission gives the President an advisory opinion on ACAPS draft circulars and the legislative or regulatory drafts related to its field of intervention. It also provides opinions on the applications for approval submitted by insurance and reinsurance companies (licensing, mergers, divisions/splits and portfolio transfers) as well as applications for approval of the statutes submitted by pension funds and mutual insurance companies.
- The Disciplinary Commission is in charge of giving the President of the Authority an advisory opinion on certain sanctions and on recovery plans submitted by insurance companies and the recovery or restoration plans submitted by pension funds.

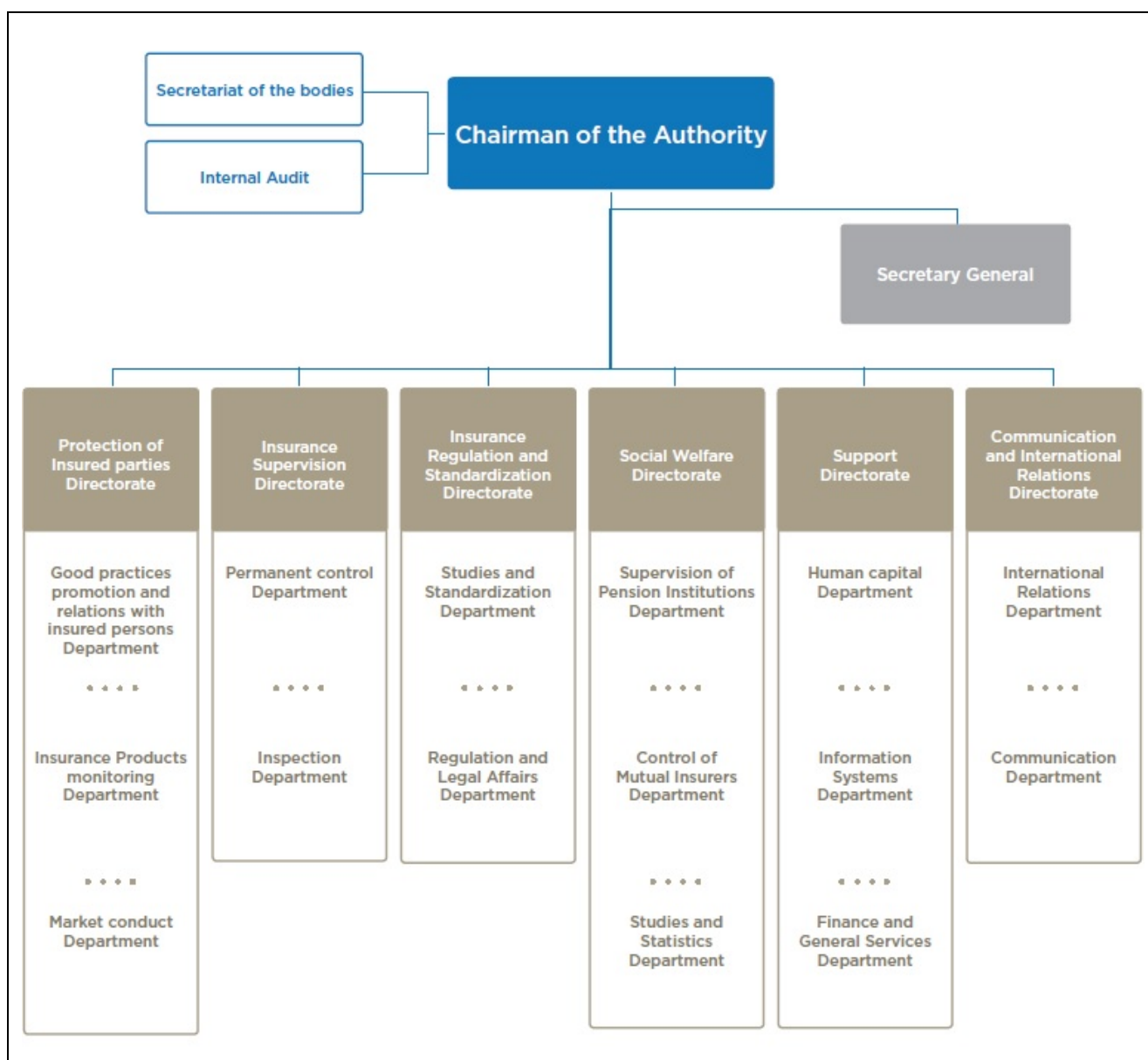
**54. ACAPS has a staff of 152 people organised into six main directorates. A table outlining staffing levels and turnover rates is provided below, along with a chart outlining ACAPS organisational structure.** ACAPS is largely funded from fee revenues received from the entities that it regulates. Insurer contributions are proportionate to premiums written during the last financial year. The rate of contribution is determined annually by ACAPS' Board.



	End-2017	End-2018
<b>FTE Headcount*</b>		
Off-site review	16	14
On – site inspection	9	10
Macro-prudential surveillance	2	2
Intermediaries supervision	9	10
Regulation and standard setting	22	24
Policy holders protection	22	23
<b>Supervisory experience<sup>2</sup></b>		
Less than 3 years	0	4
>3 < 5 years	35	46
>5<10 years	21	21
>10 years	112	81
<b>Turnover rate of those with experience of:</b>		
Less than 3 years	0%	50%

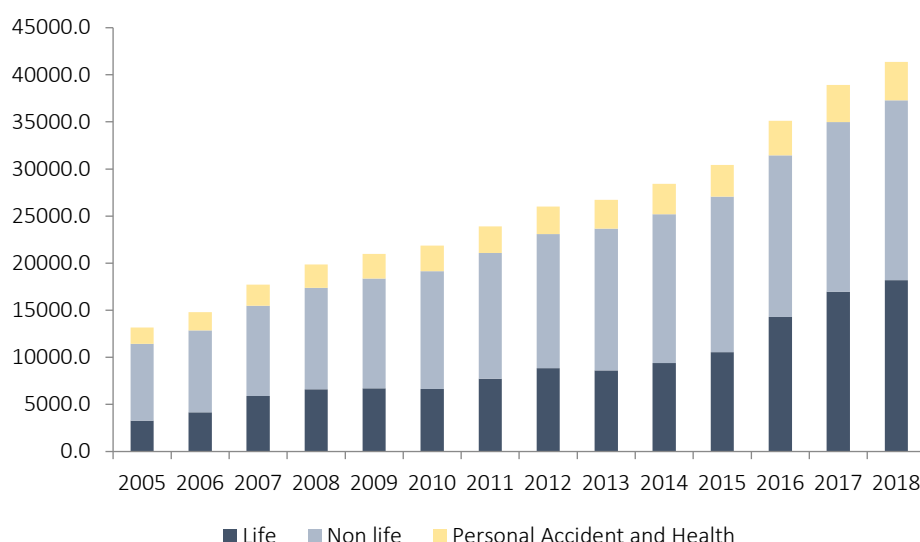
<sup>2</sup> Number of years of experience

>3 < 5 years	26%	12%
>5<10 years	2%	29%
>10 years	1%	22%



## Industry Structure and Recent Trends:

**55. Morocco's insurance sector has grown significantly in recent years.** The sector is currently the world's 51st largest in terms of gross premiums written and the second largest market in Africa, after South Africa. It is also one of the fastest growing markets in the Arab world. Sector assets account for approximately 19% of the country's GDP. Gross premiums written during 2018 were almost 43.1 billion MAD, and have grown at an average annual rate of 9% since 2006. Between 2012 and 2018, growth has been strongest in the life sector, which has grown at an average annual rate of 12.8%. Growth in non-life and personal accident and healthcare have been 5.0% and 5.6%, respectively over the same period.



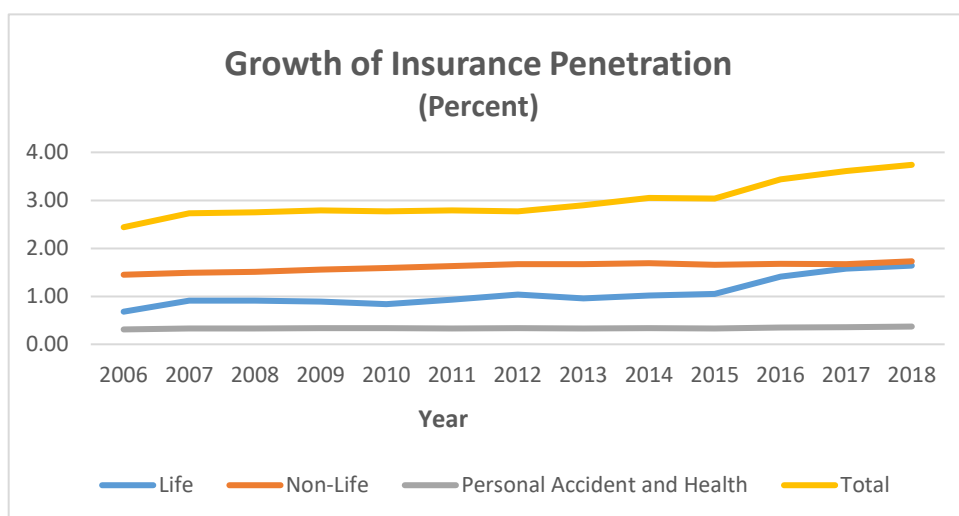
**56. Insurance penetration (Gross Premiums Written divided by GDP) and Insurance density (Per Capita Gross Premiums Written) are some traditional measures of market development.** High levels of insurance penetration and density usually signal higher levels of market development. Insurance penetration in Morocco is high by regional standards. As shown in Table 2, Morocco, at 3.74%, significantly exceeds penetration ratios found in Turkey, Tunisia, Egypt, Lebanon and Jordan. In comparison to countries of similar per capita income, Morocco has a higher penetration ratio than all but one (Jamaica). Similarly, Morocco has higher insurance density than all the countries listed below except Turkey and Jamaica.

**Table 1: Insurance Penetration and Density in Selected Countries (US Dollars)**

	Insurance Penetration (percent)	Insurance Density (US Dollars) 2017
<b>Similar Countries in the Region:</b>		
• Turkey	1.38	145.95
• Tunisia	2.33	80.77
• Egypt	0.75	14.94
• Lebanon	2.24	199.93
• Jordan	2.09	86.22
<b>Countries with Similar Per Capita Income:</b>		
• Kenya	2.64	40.67
• Serbia	2.09	98.28
• El Salvador	2.22	96.61
• Jamaica	5.41	277.29
<b>Morocco</b>	<b>3.74*</b>	<b>122.30*</b>
Source: Axco Global Statistics/ACAPS *2018 figure		

**57. The growth of insurance penetration is greatest in the life insurance business.** Life insurance penetration has grown from 0.68% in 2006 to 1.64% in 2018. Tax incentives for the

purchase of insurance savings products and the success of Bancassurance as a distribution channel are said to have stimulated sector growth. Non-life insurance business and personal accident and healthcare business have grown at more modest rates. Insurance penetration for non-life insurance has increased from 1.45% in 2005 to 1.73% in 2018, insurance penetration for personal accident and sickness products has increased from 0.31% in 2005 to 0.37% in 2018.

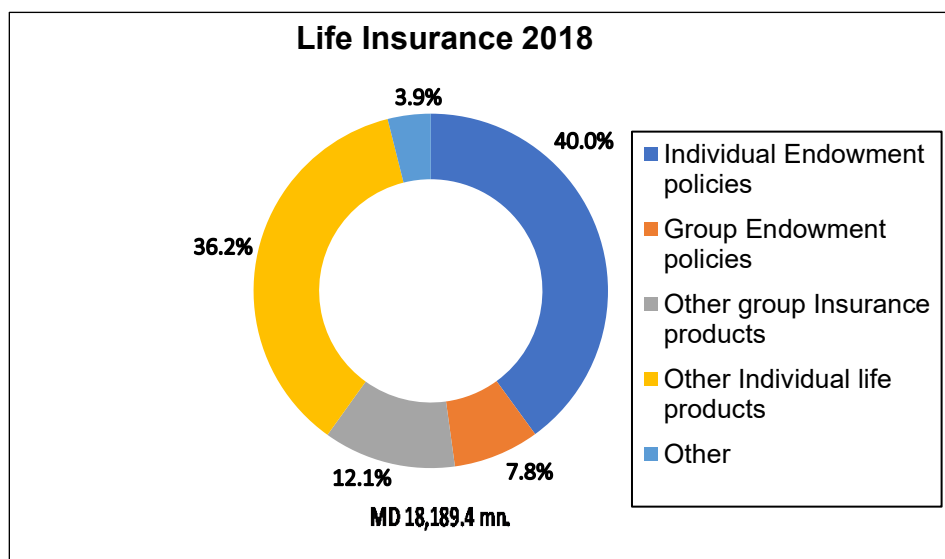


**Table 2: Premiums Written in 2018\*(MAD bn.)**

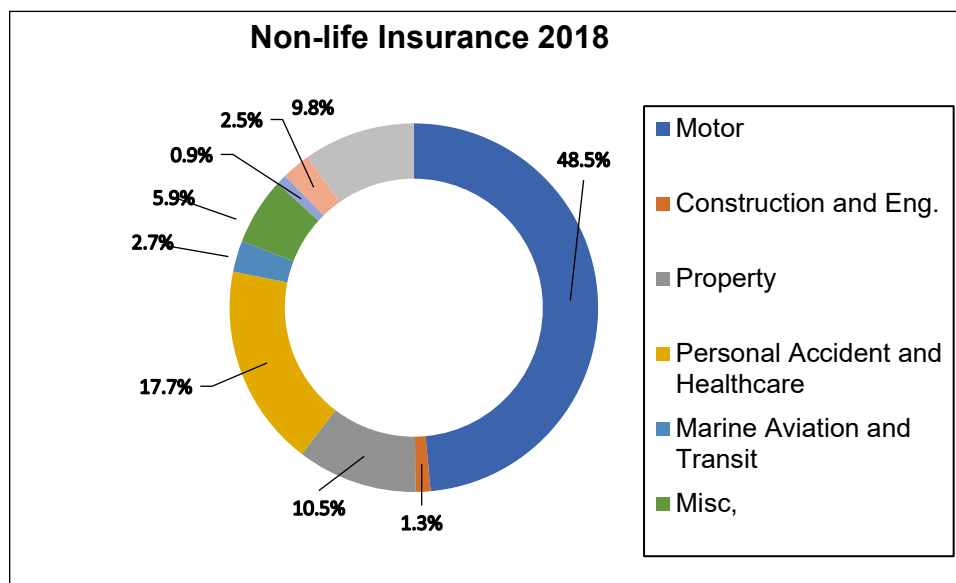
	Life	Non-Life	Personal Accident and Healthcare	Total
Premium in MAD mn.	18,189.4	18,887.4	4,074.3	41,151.1
% of total market	44.2	45.9	9.9	100.0
*Source: ACAPS				

**58. In 2018, life insurance accounted for 44.2% of gross premiums written in Morocco.** The largest portion of life insurance business is endowment policies. Individual and group endowment policies (savings policies) accounted for 47.8% of life insurance gross premiums written. All other individual and group insurance products (largely capitalisation products), account for 48.3% of gross

premiums written, and other insurance products (eg annuities) account for the remaining 3.9% of gross premiums written.



**59. The non-life sector, including personal accident and healthcare business written by non-life insurers, accounts for approximately 55.8% of gross premiums written.** The largest portion of this business is motor insurance, which accounts for 48.5% of the non-life total. Of this business line, approximately 84.3% is compulsory motor third party liability insurance. Motor Casco and motor related personal accident insurance comprise the remaining shares of this business component. Personal accident and healthcare insurance is the second largest non-life business segment accounting for approximately 17.7% of gross premiums written. Property insurance accounts for a further 10.5% of the market and workers compensation insurance accounts for a further 9.8%. All other business lines make up 13.4% of non-life premiums written.



**60. In 2018, there were a total of 22 primary insurers authorised to write business in Morocco.** Eight of these are composite insurers authorised to write both life and non-life insurance; two are life companies, six write assistance business (such as travel health insurance), three write credit insurance, three are specialised in non-life insurance. There are also two reinsurers operating in the country – the state owned Société Centrale de Reassurance (SCR) and Mutuelle Centrale de Reassurances (MAMDA Re). Gross premiums written by the two reinsurers in 2018 totalled MAD 1,719 bn in 2018. Reinsurance premiums have declined by 20 % since 2014.

**61. Market participants must either be joint stock companies or mutual insurers.** At present, there are 20 joint stock companies and 4 mutual insurers. Both joint stock and mutual insurers must have at least MAD 50 million in capital and mutual insurers may be required to maintain higher capital at the supervisor's discretion. Minimum capital for joint stock companies must be fully paid up and all shares must belong to named holders. Mutual companies must have at least 10,000 members and are intended not to be profit making.

**62. International participation in the industry is not restricted.** 100% foreign ownership of an insurance company is permitted. There is also significant financial sector cross ownership. Currently, eight authorised insurers are controlled by international insurance groups.

**63. Insurance market concentration is low for non-life insurance business and moderate for life insurance business.** The Herfindahl-Hirschman Index of market concentration was approximately 1,750 for the life industry, indicating a moderate concentration industry, while the index for the non-life industry was less than 1,125, indicating low concentration. The largest market share of any participant for the life industry was 25.7% while that of the non-life industry was 17.9%. In 2018, the five largest life insurers accounted for 85.1% of gross premiums written while the five largest non-life insurers account for 68.3% of gross premiums written.

**64. Insurance is distributed mainly through licensed brokers and agents but bancassurance has also become a major distribution channel.** In non-life business, agents and brokers account for more than 80% of non-life business. Agents are active mainly in motor, and other individual businesses. Agents may only represent one insurer. Brokers are more focused at commercial business and more complex risk solutions. In life insurance business, bancassurance is the largest distribution channel, accounting for more than 65% of life insurance business distributed. There are currently more than 1,635 insurance agents, and 449 brokers. 11 banks are also licensed to sell specific insurance products.

**65. The market includes several insurance products that are compulsory for consumers.** Compliance with compulsory insurance requirements for some compulsory products is not said to be a significant issue. Major types of compulsory insurance include those outlined in Table 3.



**Table 3: Compulsory Insurance Products**

Motor third party liability for bodily injury	Workers Compensation
Huntsman's Liability Insurance	Indemnity Insurance for certain professions including, accountants, architects, insurance brokers and agents
Fire and Explosion Liability for Operators of Fuel Oil and Gas Facilities	Clinical Trials Liability Insurance
Shipowners Liability Against Marine Oils Pollution	Decennial Construction Liability Insurance
Construction (All Risks ) Insurance	

**Operating Performance, Assets and Liabilities, and Solvency Position:**

**66. ACAPS does not report the profitability of life and non-life companies separately because so many licensed insurers are composite companies.** Aggregate primary insurance business and reinsurance business has, however, been very profitable over the last five years. Return on equity for primary insurers has ranged from 9-11% while return on assets has ranged from 1.8-1.6%. For reinsurers, Return on Equity has ranged from 9.9-14.5% while return on assets has ranged from 1.4-2.2%.

**Table 4: Insurance Industry Profitability (%)**

Source: ACAPS	2014	2015	2016	2017	2018
<b>Primary Insurance:</b>					
Return on assets	1.8	1.7	1.7	1.9	1.6
<b>Primary Insurance:</b>					
Return on Equity	10.0	9.0	9.0	11.0	9.0
<b>Reinsurance:</b>					
Return on assets	2.2	1.4	1.7	3.3	1.9
<b>Reinsurance:</b>					
Return on Equity	14.5	8.0	9.4	15.3	9.9

**Assets and liabilities:**

**67. Insurance Industry assets totalled more than MAD 228,039 bn in 2018.** Reinsurer assets accounted for approximately 6.9% of this total. Insurance sector assets grew by approximately 5.25% per annum between 2013 and the end of 2018. Most of this growth is attributable to primary insurers. In the reinsurance area, Morocco ended largely a 10% compulsory cession from Moroccan insurers to a state owned reinsurer, Société Central de Reinsurance, in 2014.

**68. The investment profile for primary insurers is strongly weighted towards equities.** Equities comprise almost 49.9% of total sector assets. The next biggest investment category is government securities, which account for 8.7% of sector assets, followed by corporate bonds, which account for 7.09% of sector assets. This investment profile appears to be much more heavily weighted towards equity investments than the investment profile found in most other jurisdictions. Since 2013, the share of equity investments has increased by almost four percent, from 46% in 2013 to 49.9% in 2018.

**Table 5: Total Industry Assets and Liabilities (million MAD)**

<b>Grand Total (Insurance &amp; Reinsurance)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Total Assets</b>	<b>176,572</b>	<b>185,450</b>	<b>193,596</b>	<b>203,772</b>	<b>214,725</b>	<b>228,039</b>
Investments:						
Government securities	13,389	17,194	18,259	19,886	18,007	19,940
Corporate bonds	19,430	16,099	15,653	15,028	16,569	16,179
Equities	80,702	86,314	90,779	98,489	105,591	111,936
Real estate	4,631	4,759	5,060	5,144	5,676	6,274
Cash and bank balances	2,716	2,544	3,805	3,615	5,795	5,987
Investments supporting unit linked	67	75	87	105	156	365
Receivables	12,379	13,126	13,165	10,579	10,151	10,196
Other assets	43,258	45,339	46,789	50,926	52,778	57,162
<b>Total Liabilities &amp; Equity</b>	<b>176,572</b>	<b>185,450</b>	<b>193,596</b>	<b>203,772</b>	<b>214,725</b>	<b>228,039</b>
Share capital	6,868	6,871	7,274	7,533	7,690	7,740
Accumulated retained earnings	3,350	3,894	4,027	4,396	4,857	5,421
TP	123,459	129,589	135,161	142,691	149,868	160,704
Other liabilities	42,895	45,095	47,134	49,151	52,310	54,174

Insurers (Life & Non-life)	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	<b>162,341</b>	<b>171,069</b>	<b>179,186</b>	<b>188,551</b>	<b>199,573</b>	<b>212,178</b>
Investments:						
Government securities	11,689	15,315	16,268	17,804	16,269	18,324
Corporate bonds	16,963	14,340	13,946	13,455	14,969	14,868
Equities	75,446	80,461	85,115	92,663	99,703	105,823
Real estate	4,532	4,671	4,984	5,077	5,615	6,215
Cash and bank balances	2,716	2,544	3,564	3,431	5,631	5,812
Investments supporting unit linked	67	75	87	105	156	365
Receivables	11,028	11,776	12,038	9,497	9,090	9,004
Other assets	39,899	41,888	43,184	46,518	48,141	51,766
<b>Total Liabilities &amp; Equity</b>	<b>162,341</b>	<b>171,069</b>	<b>179,186</b>	<b>188,551</b>	<b>199,573</b>	<b>212,178</b>
Share capital	5,368	5,371	5,474	5,533	5,590	5,640
Accumulated retained earnings	3,349	3,894	4,027	4,393	4,852	5,414
Technical provisions	112,334	118,562	124,264	131,545	139,383	149,527
Other liabilities	41,289	43,242	45,421	47,080	49,748	51,597
<b>Reinsurers</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>

<b>Total Assets</b>	<b>14,231</b>	<b>14,381</b>	<b>14,410</b>	<b>15,221</b>	<b>15,152</b>	<b>15,861</b>
Investments:						
Government securities	1,700	1,879	1,991	2,081	1,739	1,616
Corporate bonds	2,467	1,759	1,707	1,573	1,600	1,311
Equities	5,255	5,853	5,663	5,825	5,888	6,113
Real estate	99	88	76	67	62	58
Cash and bank balances	0	0	241	184	165	175
Investments supporting unit linked						
Receivables	1,351	1,350	1,127	1,082	1,061	1,192
Other assets	3,359	3,451	3,605	4,409	4,637	5,396
<b>Total Liabilities &amp; Equity</b>	<b>14,231</b>	<b>14,381</b>	<b>14,410</b>	<b>15,221</b>	<b>15,152</b>	<b>15,861</b>
Share capital	1,500	1,500	1,800	2,000	2,100	2,100
Accumulated retained earnings	1	0	0	3	5	7
Technical provisions	11,125	11,028	10,898	11,147	10,485	11,177
Other liabilities	1,606	1,853	1,713	2,071	2,563	2,577

### Solvency Position:

**69. Law No 17-99 establishes Morocco's current solvency margin provisions. For non-life insurance, the solvency margin is the highest of three calculations. One calculation is based**

on premiums, the second on losses (claims) and the third on TP. For life insurance, the solvency margin is the result of the sum of a calculation based on the mathematical and management provisions and on the capital at risk. ACAPS is in the process of implementing more risk-based solvency requirements, the principles of which are set out in a circular. Table 6 illustrates the solvency position of the industry against the existing requirements. The required solvency margin must be above 100 % and includes a capital resource eligibility limit of 70 % without taking into account the unrealised gains and the reinsurance recoverables. The last time Morocco had an insurer fail was in 1995 when five companies failed.

**Table 6: Insurer Solvency**

	2014	2015	2016	2017	2018
<b>Direct Insurers:</b>	407.0%	408.0%	449.0%	451.0%	413.6%
<b>Reinsurers:</b>	150.3%	191.3%	228.2%	250.3%	254.0%

### **Risks and Vulnerabilities:**

**70. The continued growth and stability of the insurance sector is dependent on continued economic growth and the stability of the region, and the broader financial sector.** While economic growth is expected to continue in the range of 2-3% per annum, economic or political shocks could have impacts on these expectations. The authorities are aware of these issues and are working to maintain a stable environment, as they have during the last two decades.

**71. The low and declining interest rate environment could present challenges for the future sale of some life insurance products, particularly endowment policies and products offering guaranteed minimum returns.** Morocco life insurers, especially those with guaranteed products in their portfolio, are looking to increase unit-linked products to shift some investment risks to policyholders but the share of these products is quite small.

**72. Morocco has an unusually high percentage of equity shares in the investment portfolios of insurers.** In the event of serious equity market fluctuations, this could result in serious solvency or liquidity problems for insurers. Equities accounted for close to 49% of insurer assets in

2018 and the share of these investments in insurer portfolios has been growing. This issue is discussed further in the body of the report, under ICP 15.