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Circular letter 25/9 of the Commissariat aux Assurances on the content of authorisation applications for captive insurance undertakings and reinsurance undertakings

The Commissariat aux Assurances (CAA) is increasingly being called upon to deal with authorisation applications for captive insurance undertakings and reinsurance undertakings. The purpose of this Circular Letter is to facilitate the preparation of authorisation files and their processing, to recall the main regulatory and prudential principles that must be complied with in order to obtain approval, as well as best practices in this area. Therefore, this Circular Letter pursues four main objectives:

- clarifying the expectations of the CAA throughout the approval process for captive insurance undertakings and reinsurance undertakings;
- improving the quality of submissions and thus shorten processing times;
- defining the content of the application in accordance with articles 1 and 3 of the Commissariat aux Assurances Regulation N° 15/03, as amended;
- introducing forms and templates allowing for digital submission of these files to the CAA.

Legal Bases :

This Circular Letter is based on the following texts:

- Articles 44 and 55 of the amended law of December 7th, 2015, on the insurance sector (hereinafter “LSA”);
- Articles 1 and 3 of the Commissariat aux Assurances Regulation N° 15/03 of 7th December 2015 on insurance and reinsurance undertakings, as amended (hereinafter “RCAA”);
- The amended law of 8th December, 1994, on:
 - o the annual and consolidated accounts of insurance and reinsurance undertakings governed by Luxembourg law;
 - o the obligations relating to the preparation and publication of the accounting documents of branches of insurance undertakings governed by foreign law (hereinafter “LCA”).

Definitions :

I. Authorisation procedure

The undertaking seeking authorisation (hereinafter « the applicant ») or the group of undertakings seeking authorisation to establish a captive insurance undertaking or a reinsurance undertaking must contact the CAA in order to arrange a meeting to present the project at the CAA’s premises or by videoconference, prior to submitting a formal application. The presentation’s supporting documents must be sent to the CAA prior to the meeting, providing information on, among others, the activities of the group to which the applicant belongs, as well as an overview of the business plan and system of governance. Applicants are advised to be accompanied at this meeting by a Luxembourg consulting firm or professional of the insurance (PSA) who will be involved in preparing the authorisation file.

Following this meeting, the authorisation application containing all the required documents must be sent to the CAA. This application is usually submitted by the applicant himself or by an intermediary such as a professional of the insurance (PSA). An electronic submission of the file is sufficient and preferred.

The CAA's information exchange platform, "CAA-FileShare ", can be made available to the applicant in order to submit the authorisation file.

Once an authorisation file has been received, the CAA first checks its completeness.

If the content of the application is deemed complete in light of the items listed in Appendix I, for reinsurance undertakings, and Appendix II, for captive insurance undertakings, a letter acknowledging receipt of the file is sent to the applicant by the CAA. The CAA commits to conducting an in-depth review of the application within a timeframe that varies depending on the availability of its resources and the complexity of the file. The results of the in-depth review of the file will be communicated to the applicant, or their intermediary, by letter(s), and additional meetings may be organized between the CAA, the applicant, and/or the intermediary to facilitate and accelerate the review of the authorisation file.

When the content of the application file is deemed incomplete, a list of missing/blocking items is sent to the applicant. The in-depth review of the application can only begin once all missing/blocking items have been provided or resolved.

It should be noted that the CAA strives to rule on authorisation files as quickly as possible. The review of authorisation files usually takes between 3 and 6 months for non-complex captive insurance undertakings or reinsurance undertakings that are of moderate size.

In order to ensure prompt processing, applicants are requested to :

- be responsive and provide comprehensive answers to the comments and questions raised by the CAA. If there is any doubt as to the interpretation of the questions raised by the CAA, it is advisable to contact the CAA agent handling the application file, whose contact details are provided in the letter or email;
- send to the CAA all the responses in one single package in order to facilitate the handling of the high volume of applications to be dealt with by the CAA.

Once the review of the application file is complete, it is submitted to the Head of « Non-Life and Reinsurance » department, who decides on whether to include the file on the agenda of the CAA's Executive committee meeting, which will eventually decide on the acceptance of the authorisation file.

The applicant is then immediately informed of the decision, which can be either of the following: approval, conditional approval, or rejection. A conditional approval is used in case of pending documents or where the undertaking to be authorised is yet to be established. In such cases, the authorisation will be signed by the Chairman of the Executive Committee and sent to the applicant only once all conditions have been met.

II. Main points of analysis

The intensity of the CAA's review is commensurate with the projected size of the undertaking and the nature and complexity of the risks it proposes to accept. The depth of analysis remains at the sole discretion of the CAA.

The principle of proportionality may allow undertakings to benefit from a certain amount of flexibility when it comes to governance requirements. More detailed information about proportionality in the field of governance can be found in the various circular letters on governance available on the CAA website. These circular letters are relating, in particular, to the organisation of the boards of directors and key functions.

The CAA's review of the application focuses on analysing the following topics:

- General information:
 - o Economic motivation of the project;
 - o Description of the group;

- Nature of the accepted risks, underwriting policy and adequacy of the reinsurance/retrocession program;
- captive business or third party business;
- The external auditor.
- Shareholders:
 - Transparency of the shareholding structure;
 - Quality and good repute of the shareholders, given the need to ensure sound and prudent management of the applicant's operations;
 - Financial soundness.
- Business plan:
 - Consistency and analysis of the realistic nature of:
 - the underlying assumptions of the business plan (balance sheet prepared in accordance with the LCA, the « Solvency II » balance sheet, income statement, stress scenarios);
 - the calculation of technical provisions and "best estimates";
 - the remedial measures to be implemented to ensure compliance with risk tolerance thresholds following stress scenarios.
 - Quality and sufficiency of eligible own funds to cover the MCR and the SCR in the base- and stress scenarios ;
 - Measures envisaged to restore the target solvency ratio after a stress scenario, including the existence of a parental guarantee in case of insufficient own-funds to meet the solvency requirements;
 - Pricing adequacy ;
 - Consistency of the SCR calculation;
 - Consistency of the prudential and statutory balance sheet with regards to the principles set out in the LSA and LCA;
 - The quality of the ceding companies and the reinsurers with regard to the requirements of paragraph 1(g) of Article 3 of the RCAA;
 - Compliance with the prudent person principle.
- Governance:
 - Fit & Proper of directors, executive(s), and key function holders;
 - Organisation and effectiveness of the governance system, including Board Committees;
 - Substance with regard to the requirements of Article 51 of the LSA;
 - Independence of key function holders and conflicts of interest prevention;
 - Compliance of the articles of association or draft articles of association with laws and regulations.

III. Content of the authorisation application

Without prejudice to the CAA's right to request any information it deems necessary for the assessment of the authorisation application; this section aims to define the minimum content of the application to be submitted to the CAA.

With regards to the documents and information referred to in Annexes I and II of this Circular letter, the name of the document must include the reference number at the beginning of the electronic document name. For example, the file containing the shareholder organization chart may be named "II.1_Organization Chart", and the description of the group to which the applicant belongs may be named "I.3_Description_Activities". The references to be used are indicated in the column "Reference" of Annexes I and II.

Documents sent in PDF format should, if possible, allow for searching via the "Ctrl+F" function. Documents including calculations must be submitted in Excel format including the formulas.

In order to enable the CAA to integrate the (re)insurance undertaking into its IT systems, the applicant is required to provide the CAA with the following information as soon as the undertaking has been established and as soon as CAA's authorisation has been obtained:

- the registration number in the Trade and Companies Register;

- the « Legal Entity Identifier » (LEI code);
- where applicable, the questionnaire on the use of electronic signatures in accordance with Circular letter 23/10 on the remote working of managers, key function holders and other control functions and the use of electronic signatures;
- where applicable, outsourcing notifications referred to in Circular letter 22/16 on the outsourcing of critical or important operational functions and activities.

IV. Final Provisions :

As from September 1st, 2025, authorisation applications must be submitted in the format defined in this Circular letter.

The Executive Committee