

Content

Title :	Regulations Governing the Implementation of Internal Control and Audit System and Business Solicitation System of Insurance Agent Companies and Insurance Broker Companies Ch
Date :	2014.08.14
Legislative :	1.Promulgated on December 26, 2011. 2.Articles 2, 9, 23, and 31 amended and promulgated, and article 32 deleted per Financial Supervisory Commission Order No. Jin-Guan-Bao-Zong-Zi 10302567741 dated August 14, 2014.
Content :	<p>Chapter 1 General Provisions</p> <p>Article 1 These Regulations are adopted pursuant to Paragraph 3, Article 165 of the Insurance Act.</p> <p>Article 2 Insurance agent companies and insurance broker companies with annual operating revenue reaching the amount specified in the following subparagraphs shall establish internal control and audit system as well as business solicitation system and procedures in accordance with the prescribed timeframes: 1. With annual operating revenue of NT\$300 million or more, the systems and procedures shall be established within the next year. 2. With annual operating revenue of NT\$100 million or more but below NT\$300 million, the systems and procedures shall be established within the next two years. Insurance agent companies and insurance broker companies with annual operating revenue reaching NT\$ 50 million or more but below NT\$ 100 million shall establish internal control and business solicitation system and procedures within the next three years. The operating revenue referred to in these Regulations shall be the operating revenue as defined in Article 5 of the Financial Supervisory Commission Regulations Governing Fee Schedule for Annual Supervision Fee, Examination Fee and Fee Collection.</p> <p>Article 3 The term “internal control and audit system and business solicitation system and procedures” referred to in these Regulations are management processes defined by the management, approved by the board of directors and implemented by the board of directors, the management and other employees for the purpose of promoting sound operations of the company to reasonably ensure that the following objectives are achieved: 1. Effectiveness and efficiency of operations; 2. All transactions take place under proper authorization; 3. Enhancing the skills of insurance solicitors, treating all consumers fairly and soliciting business in an explicit, fair and reasonable manner; 4. Premiums and related expenses collected from or turned in on behalf of policy applicants are safeguarded; and</p>

5. Compliance with applicable laws and regulations.

Article 4

The internal control and audit system and business solicitation system and procedures of an insurance agent or broker company shall be passed by its board of directors, and, if any director has a reservation or dissenting opinion, the company shall state such director's opinion and reasons in the board of directors' meeting minutes, and shall send the minutes together with the internal control system passed by the board of directors to each supervisor; the same shall apply to any amendment thereto.

Chapter 2 Design and Implementation of Internal Control System

Article 5

The internal control system of an insurance agent or broker company shall incorporate at least the following principles:

1. Management oversight and control culture: The board of directors shall have the responsibility for approving and periodically reviewing overall business strategies and major policies, and shall have the ultimate responsibility for ensuring that adequate and effective internal control system are established and maintained; senior management shall have the responsibility for implementing business strategies and policies approved by the board of directors, for developing processes that identify, measure, monitor, and control risks incurred by the company, for setting appropriate internal control policies, and for monitoring their effectiveness and relevance.
2. Risk recognition and assessment: An effective internal control system requires that the material risks that could adversely affect the achievement of the company goals are being identified and continually evaluated.
3. Control activities and delegation of responsibilities: Control activities shall be an integral part of the daily operations. An appropriate control structure shall be set up, with internal control processes defined at every business level. An effective internal control system requires that there is appropriate delegation of responsibilities and that management and employees are not assigned conflicting responsibilities.
4. Information and communication: An insurance agent or broker company shall maintain relevant and comprehensive financial and non-financial information related to operations, financial reports and regulatory compliance; such information shall be reliable, timely, and accessible in order to establish effective channels of communication.
5. Monitoring activities and correction of deficiencies: An insurance agent or broker company shall monitor the effectiveness of its internal controls on an ongoing basis. Business units, internal audit or other internal control personnel shall promptly report any internal control deficiencies found to the appropriate management in a timely manner, and any significant internal control deficiencies shall be reported to senior management, the board of directors and supervisors with corrective actions promptly taken.

Article 6

The internal control system of an insurance agent or broker company shall cover all business activities with business solicitation system and procedures as well as internal control procedures established in line with

the nature and scale of business and based on the principle of internal checks and balances, and shall be reviewed and revised in a timely manner.

Article 7

The business solicitation system and procedures referred to in the foregoing article shall contain at least the following particulars:

1. Qualifications of insurance solicitors, the types of insurance they may solicit, solicitation methods, on-the-job training, rewards and disciplines, and rights and obligations.
2. Management measures regarding performance review that links the commissions received by insurance solicitors to risk exposure and duration of commission payment, solicitation quality, and solicitation dispute.
3. Operations and management measures regarding collection and turn-in of premiums by insurance solicitors on behalf of customers.
4. Description of major contents of insurance products and associated rights and obligations, and disclosure of related information.
5. Advertising, promotional and sales activities and management of such activities.
6. Understanding and evaluating the insurance needs and suitability of applicants or the insured.
7. Check mechanism and signature operation in place following solicitation and prior to submission of application.
8. Control and safekeeping of solicitation documents.
9. Customer complaint.
10. Other matters designated by the competent authority.

Article 8

The internal control procedures referred to in Article 6 herein shall contain at least the following particulars:

1. Controls on accounting, general affairs, information, confidentiality of personal information and other businesses.
2. Management of financial examination reports.
3. Other matters designated by the competent authority.

Insurance broker companies that provide the services of risk planning, reinsurance planning and claim application must establish appropriate procedures for such services.

Article 9

For the purpose of maintaining effective operation of its internal control system to achieve the objectives of internal control set out in Article 3 herein, an insurance agent or broker company shall adopt the following measures. An insurance agent or broker company may be exempt from subparagraphs 1 and 3 if it meets paragraph 2, Article 2 herein.

1. Internal audit system: Set up the post of internal auditor to take charge of auditing each unit and periodically evaluating the performance of self-inspection conducted by each business unit.
2. Self-inspection system: Members of different units check on each other the actual implementation of internal controls under the supervision of managerial personnel or personnel at comparable position or higher as assigned by each unit to discover deficiencies early and take corrective actions in a timely manner.
3. Independent auditor system: Where a certified public accountant (CPA) is required or has been engaged to certify the company's annual financial

statements, the CPA should be engaged to audit the internal control system.

4. Compliance system: Set up the post of compliance officer to take charge of appraising whether business personnel comply with relevant laws and regulations while executing the business.

Chapter 3 Examination of Internal control system

Section 1 Internal Audit

Article 10

The purpose of the internal audit system is to assist the board of directors and management in checking and assessing whether the internal control system operates effectively, and to provide timely recommendations for improvement so as to ensure the on-going and effective implementation of the internal control system and provide the basis for reviewing and revising internal control system.

Article 11

Insurance agent companies and insurance broker companies shall plan the organization structure, staffing and functions of internal audit unit and draft internal audit manual.

An internal audit manual shall contain at least the following particulars:

1. Operating process for annual audit plan.
2. Audit and assessment of internal control system to measure the effectiveness and the level of compliance of existing policies and procedures, and the effect on various operating activities.
3. Audit items, time, procedures and methods.
4. Format, handling and preservation of internal audit report.

An insurance agent or broker company shall see to it that all of its internal units carry out self-inspection and have its internal audit unit review the self-inspection reports; the self-inspection reports, together with deficiencies and irregularities found by internal auditors and improvement actions taken will serve as a basis for the board of directors, management, auditors, and compliance officer to evaluate the overall effectiveness of the internal control system and for the issue of a statement on internal controls.

Article 12

An insurance agent or broker company shall appoint an appropriate number of qualified auditors directly under the board of directors to take charge of the audit operations. Auditors shall not serve concurrently in positions that are in conflict with or will handicap their audit works and shall report the audit operation to the board of directors and supervisors at least once every year.

The appointment, dismissal or transfer of auditors must be passed by the board of directors and reported to the competent authority in a manner designated by the competent authority with confirmation document and record filed and saved.

To put the internal control system into effect, strengthen the professional abilities of the deputy of the internal auditor and to further improve and maintain the quality of audit and its implementation result, an insurance agent or broker company shall have a deputy in place for internal auditor. The provisions in Articles 14 ~ 16 and Article 20 herein shall apply mutatis mutandis to the deputy mentioned in the preceding paragraph.

Article 13

To ensure that the company maintains proper and effective internal audit system, the duties of internal auditors in performing the tasks of internal audit shall include at least the following:

1. The audit of cashier' s operation, inventory of assets and financial affairs.
2. The audit of business solicitation and other operations.
3. The audit of personnel and other management affairs.
4. In charge of liaison works when the competent authority performs financial examination and provide related information and assist in the examination works.
5. Other matters designated by the competent authority.

Article 14

The internal auditors of an insurance agent or broker company shall possess one of the following qualifications:

1. Having the qualification of an insurance agent or broker and having actually served as a signatory for at least two years.
2. Having at least five years of experience in supervision works relating to insurance enterprise, insurance agent or insurance broker.
3. Having graduated from a junior college, college, or university and passed a senior civil service examination or an examination equivalent to a senior civil service examination, or the examination of Certified Internal Auditor (CIA), and having at least two years of experience in related business of insurance enterprise, insurance agent, or insurance broker or other finance-related businesses.
4. Having at least five years of work experience in related businesses of insurance enterprise, insurance agent or insurance broker.
5. Having at least two years of work experience as an auditor in an accounting firm, or a system analyst in a computer company, or a professional in similar capacity and having received not less than three months of training in insurance business and management; however the number of internal auditor with such qualification shall not exceed one half of the company' s total number of internal auditors.

Qualified internal auditors according to the preceding paragraph shall be free of any record of demerit or more serious offense from employer in the last three years, unless the demerit record was a result of joint and several disciplinary action on account of the violation or offense of a co-worker, and the demerit has been offset by other merits.

Article 15

The internal auditors of an insurance agent or broker company shall perform their duties in good faith, and shall be free of the following situations:

1. Act beyond the scope of audit functions or engage in other improper activities, or disclose externally any acquired information, attempt to profit therefrom, or otherwise use the information against the interest of the company.
2. Fail to recuse himself or herself from auditing of cases or businesses within the scope of his or her duties or matters in the past year or in which he or she has personal interests or interest conflicts.
3. Accept any improper entertainments or gifts or other improper benefits from company employees or customers.
4. Fail to audit items according to the instructions of the competent

authority or fail to provide relevant information.

5. Conceal or make false or inappropriate disclosures of any of the company's business or compliance activities while knowing such activity directly harms the applicant, the insured or the beneficiary.

6. Damage the interests of the company, applicant, the insured or beneficiary due to dereliction of duties.

7. Have other conducts prohibited by laws or the competent authority.

Article 16

An internal auditor shall attend at least one session of workshop offered by a competent authority-ratified training institution. A newly appointed auditor must pass the test given by the aforementioned training institution and receive a course completion certificate.

An internal auditor must each year attend a minimum of 30 hours of professional trainings related to the business of insurance agent or broker held by a training institution mentioned in the preceding paragraph or by a financial holding company or a subsidiary thereof, or a bank or its parent company thereof. An internal auditor who has received the certification of Certified Internal Auditor (CIA) may be exempted from the aforementioned requirement for training hours in the year of receiving the certification. Not less than one half of the training hours that an internal auditor attends as required in the preceding paragraph shall be from insurance agent or broker related professional trainings held by a competent authority-ratified institution.

Article 17

Internal auditors shall conduct a routine audit on different management units of the company at least once every year, and a special audit as deemed necessary.

Internal auditors shall include the implementation status of compliance system into the routine audit or special audit of business and management units.

Article 18

The internal audit report prepared by an internal auditor for a routine audit shall disclose at least the following information:

1. Scope of audit, summary review of audit, financial and business conditions, regulatory compliance, control and internal management of various businesses, management of customer information confidentiality, training, measures for the protection of consumer interests, and implementation of self-inspection, and the evaluation of those items.
2. Opinions on material violation, deficiency or fraud that has taken place, and recommendations for punishment of derelict employees.
3. Status of improvement measures taken in response to the examination opinions given or deficiencies identified by the competent authority, independent auditor, internal auditor, or self-inspection personnel, or matters requiring further improvement efforts as specified in the statement on internal controls.

The internal audit report mentioned in the preceding paragraph and its working papers and related information shall be preserved for at least five (5) years.

Annual audit plan and any revisions thereto must be approved by the board of directors.

An internal auditor shall report matters specified in the second subparagraph of Paragraph 1 hereof to the competent authority after confirming the facts.

Article 19

Internal auditors shall continually follow up on any examination opinions or audit deficiencies brought up by the competent authority, independent auditor, or internal auditor, or self-inspection, and on matters requiring further improvement as specified in the statement on internal controls, and submit a written report on the status of improvement actions taken to the management, board of directors and supervisors, and include those items as important factors for consideration in determining reward/disciplinary for and performance evaluation of each unit.

Internal audit reports shall be submitted to the supervisors for review and reported to the board of directors. In addition, a company shall, within two months after the end of each fiscal year, submit a report on the irregularities and deficiencies found in previous year's internal audits as well as improvement actions taken to the competent authority. However in case a material violation or irregularity is found in an internal audit, the company shall submit the related internal audit report to the competent authority within one month from the end of the audit.

Article 20

An insurance agent or broker company shall, in a format designated by the competent authority, file with the competent authority information on the name, age, educational background, work experience, years of service, and training of its internal auditors by the end of January each year.

Article 21

An insurance agent or broker company shall from time to time check whether there is any violation of Article 15 herein by its internal auditors, and, upon discovery of any such violation, shall adjust the position of the auditor within one month from the date of discovery.

When filing basic information of internal auditors under Article 20 herein, an insurance agent or broker company shall check whether or not the internal auditors have met the requirements set forth in Articles 14 and 16 herein; if not, the internal auditor shall take remedial actions within two months, failing which, the company shall promptly adjust the auditor's position.

Section 2 Self-Inspection and Statement on Internal Controls

Article 22

An insurance agent or broker company shall establish a self-inspection system, and shall conduct self-inspection at least annually and a special self-inspection as deemed necessary.

When a unit of the company conducts self-inspection mentioned in the preceding paragraph, the unit chief shall assign personnel other than the original handling staff to carry out the inspection and keep the inspection activity confidential beforehand.

The self-inspection report and its working papers shall be preserved for at least five (5) years.

An insurance agent or broker company shall establish a self-inspection training program to provide self-inspection personnel with proper training on a continual basis.

Article 23

The general manager of an insurance agent or broker company shall oversee that each unit carefully evaluates and reviews the implementation of internal control system. The company's chairman, general manager and relevant officers shall jointly sign a statement on internal controls (see attached), which shall be submitted to the board of directors for approval and filed in a manner designated by the competent authority before the end of April each year.

Section 3 Audit by Independent Auditor and Compliance

Article 24

Where a certified public accountant (CPA) is required or has been engaged to certify its annual financial statements, an insurance agent or broker company shall engage the CPA to audit its internal control system and ask the CPA to express opinions on the accuracy of the statements, reports, and other information of the company submitted to the competent authority, as well as the status of implementation of the company's internal control system and compliance system.

Where the annual financial statements of an insurance agent or broker company do not require the audit and certification of a CPA, the competent authority may, if deemed necessary, order the company to engage a CPA to carry out a special audit of its internal control system.

The audit fees of the CPA in the preceding paragraph are to be agreed upon between the insurance agent or broker company and the CPA, and shall be borne by the insurance agent or broker company.

Article 25

Where necessary, the competent authority may invite an insurance agent or broker company and its CPA to discuss matters with respect to the audit mentioned in the preceding article. If the CPA engaged by the insurance agent or broker company is found to be incompetent for the audit works, the competent authority may order the insurance agent or broker company to change its CPA and appoint another CPA to re-conduct the audit works.

Article 26

A CPA performing an audit as described in Article 24 herein shall promptly report to the competent authority in case of any of the following circumstances:

1. During the course of an audit by the CPA, the company refuses to provide the required financial statements, supporting vouchers, account books, or meeting minutes, or otherwise refuses to answer the questions of the CPA, or the CPA is unable to continue the audit works due to the constraint of other objective circumstances.
2. There is any material misstatement, forgery or omission of information of serious nature in the accounting or other records of the audited company.

In case an audited company has a situation described in subparagraph 2 of the preceding paragraph, the CPA shall first submit a summary report based on the audit result to the competent authority.

Article 27

When an insurance agent or broker company engages the CPA to conduct the audit specified in Article 24 herein, the company shall submit the CPA's audit report of the previous year to the competent authority or to an

agency designated by the competent authority by the end of April each year. When the competent authority inquires the contents of the audit report, the CPA shall provide relevant information and explanations in details.

Article 28

The compliance system provided in subparagraph 4 of Article 9 herein shall be established and implemented in accordance with the Regulations Governing Insurance Agents or the Regulations Governing Insurance Brokers.

Chapter 4 Supplemental Provisions

Article 29

The branch of a foreign insurance agent or broker company in Taiwan that meets the conditions set out in Paragraph 1 of Article 2 herein shall carry out internal control and audit in compliance with these Regulations.

However, if the internal control and audit system and business solicitation system and procedures of the branch are drawn up based on the relevant rules and systems of its head office and such rules are not lower than the standards set out in these Regulations, the branch in Taiwan is allowed to report its situation to the competent authority and carry out internal control and audit according to such systems after the branch has provided detail descriptions of the systems adopted by its head office and a report comparing the head office's systems and the systems provided herein, which is signed by the responsible person of the branch in Taiwan.

Article 30

In case an insurance agent or broker company is a limited company matters that must be reported to the board of directors or resolutions to be adopted or charged by the board of directors under these Regulations shall be reported to or decided by all directors; matters that should be reported to supervisors shall also be reported to shareholders that are not involved in the execution of business.

Article 31

Insurance agent or broker companies that meet the following conditions may be exempt from these Regulations after getting the approval from the competent authority.

1. For insurance agent or broker companies that have met paragraph 1, Article 2 and have established internal control and audit system and business solicitation system and procedures, operating income of three consecutive years has not reached the amount set out in subparagraph 2, Paragraph 1 of Article 2 herein, and the operating income of the most recent year has not reached NT\$50 million.

2. For insurance agent or broker companies that have met paragraph 2, Article 2 and have established internal control and business solicitation system and procedures, operating income of three consecutive years has not reached the amount set out in paragraph 2, Article 2 herein, and the operating income of the most recent year has not reached NT\$ 30 million.

Article 32

(Delete)

Article 33

These Regulations shall enter into force on the date of promulgation.