

Reserve Bank of Fiji
Insurance Supervision Policy Statement No: 5



NOTICE TO INSURANCE COMPANIES LICENSED UNDER THE INSURANCE ACT 1998

**ASSET INVESTMENT MANAGEMENT POLICY FOR INSURANCE
COMPANIES LICENSED TO CONDUCT INSURANCE BUSINESS IN FIJI**

1. Introduction

- 1.1 This notice is issued under Section 3(2)[a] of the Insurance Act 1998 as part of the Reserve Bank of Fiji's standards governing the conduct of insurance business in the Fiji Islands. The purpose of this statement is to outline the asset investment management principles and guidelines relating to insurance companies licensed to conduct insurance business in Fiji.
- 1.2 In preparing this notice, the Reserve Bank of Fiji has been guided by the Core Principles of Insurance Supervision and the supervisory standard on Asset Management issued by the International Association of Insurance Supervisors (IAIS), powers under the Insurance Act (1998), and guidelines or legislations on asset investment management of selected insurance supervisory authorities.

2. Background and Outline of the Approach

- 2.1 Insurance business encompasses the investing of both the shareholder and significant policyholder funds in the pursuit of required rates of return. Assets must be managed in a sound and prudent manner taking account of the profile of the liabilities held by the company and the complete risk-return profile. The objective is to ensure that an insurer is able to meet its contractual liabilities to its policyholders, as they fall due.
- 2.2 The investment portfolio of insurers typically includes:
- a) bonds, securities and other fixed income instruments;
 - b) equities and equity type investments;
 - c) debts, deposits and other rights; and
 - d) property investments.
- 2.3 The Reserve Bank does not intend to take the approach of imposing quantitative limits on the categories of investments described in paragraph 2.2. It will primarily rely on the Board and senior management of the insurer to set prudent limits in its investment policy.

- 2.4 This policy notice describes the essential elements of a sound asset investment management system across the full range of investment activities. However, it is acknowledged that the asset management practices of insurers are likely to differ according to the size and structure of the insurer and the type or class of business it conducts. Therefore, the policy notice highlights the basic requirements that all insurance companies must observe.
- 2.5 The policy notice is applicable to both local and foreign investments. However, foreign investments of the insurer will also be subject to applicable exchange control limits.
- 2.6 For insurers incorporated overseas, the Reserve Bank will rely on the home supervisor of the insurer to monitor compliance with the similar requirements contained in this policy notice, which have been issued by the home supervisor. If the requirements of the home supervisor is considered to be inadequate, the Reserve Bank may seek to impose further requirements on the insurance company in Fiji.

3. Requirements under the Insurance Act 1998

3.1 Specified Investments

The Insurance Act (1998) specifies that the assets of an insurer must be invested in the manner and as regards such amounts, if any, as are prescribed. The Act does not prescribe the limits on the categories of investments described in paragraph 2.2 and on related party investments. It provides the insurer freedom to invest the assets in a prudent manner. In order to protect policyholders interests, it is necessary for the Reserve Bank of Fiji to issue these guidelines on asset investment management.

3.2 Application of Statutory Fund

Section 116(3) of the Act prohibits the investment of assets of a statutory fund either directly or indirectly, in any share or interest in any other insurer, without prior written approval of the Reserve Bank.

3.3 Valuation of Assets

Section 35 of the Act requires the value of an asset of an insurer as at a particular time to be the market value of the asset at that time. A valuation conducted by an independent valuer acceptable to the Reserve Bank will also be considered.¹

¹ Refer to valuation note in RBF Insurance Supervision Policy Statement No: 3A on Solvency Requirements for Insurers Licensed to Conduct Life Insurance Business in Fiji and paragraph 4.3 of RBF Insurance Supervision Policy Statement No: 3B on Solvency Requirements for Insurers Licensed to Conduct General Insurance Business in Fiji

4. Additional Requirements

4.1 Special Requirements for Overseas Incorporated Insurers Operating as a Fiji Branch

4.1.1 Some licensed insurers in Fiji are branch operations of overseas companies. In such cases, the Fiji branch of the insurer should provide a report to the Reserve Bank annually, on the procedures their organisation has in place, for asset investment management. Any significant changes to the procedures should be reported to the Reserve Bank as and when they occur. Some branch operations may have a local resident director in place. It is however, more likely that the branch operation is controlled by the local management in conjunction with the responsible head office director. The Fiji operations will be subject to the requirements of this policy. Branches of foreign incorporated insurance companies that have problems in complying with the requirements of the policy, should discuss their options with the Reserve Bank.

4.2 Senior Management Oversight

4.2.1 The Board of Directors is ultimately responsible for the formulation, approval and establishment of investment policies of the insurer. Delegation of associated activities and functions to other managers or employees does not diminish this responsibility.

4.2.2 At least once annually, the Board shall review the adequacy of the investment policy in the light of the insurance company's activities and market conditions.

4.2.3 Senior management should ensure that all individuals conducting, monitoring and controlling investment activities are appropriately qualified and have sufficient levels of knowledge and experience.

4.3 Investment Policy

Insurers must have in place an overall strategic investment policy that addresses the following main elements²:

- (a) the determination of the strategic asset allocation, that is, the long term asset mix over the main investment categories;
- (b) the establishment of limits for the allocation of assets by geographical area, markets, sectors, counterparties and currency, where practical;
- (c) the formulation of an overall policy on the selection of individual securities and other investment titles;

² IAIS Supervisory Standard on Asset Management.

- (d) the adoption of passive or more active investment management in relation to each level of decision making;
- (e) in the case of active management, definition of the scope for investment flexibility, usually through the setting of quantitative asset exposure limit;
- (f) the extent to which the holding of some types of assets is ruled out or restricted where, for example, the disposal of the asset could be difficult due to the illiquidity of the market or where independent (i.e. external) verification of pricing is not available;
- (g) an overall policy on the use of financial derivatives (if any) as part of the general portfolio management process or of structured products that have the economic effects of derivatives;
- (h) maintain proper books of account relating to the fund and establish the framework of accountability for all asset transactions; and
- (i) formulation of an appropriate risk management policy in respect of the investment activities of the insurer.

The investment policy should be communicated to all staff involved in investment activities.

4.3.1 Investment Committee (IC)/Assets and Liabilities Committee

The Board should establish an Investment Committee (IC) or Assets and Liabilities Committee (ALCO) that is responsible for setting the investment strategies and policies and overseeing the investment portfolio of the insurer. At the minimum, this Committee should include the Principal Officer/Chief Executive Officer, Appointed Actuary (in case of a life insurance company³) or Financial Controller (in case of a general insurance company) and the Chief Investment Officer (or an officer in a similar capacity responsible for investment functions). The Board is also encouraged to include non-executive directors in the IC. The IC should ensure that a Board-approved investment policy of the insurer is implemented in an appropriate manner.

a) Duties of the Investment Committee

The duties delegated to the IC should include, but not be limited to the following functions:

³ In the case of the appointed actuary being a non-resident in Fiji thus cannot be appointed as a member of the IC/ALCO of the Fiji operation of the life insurer, the RBF would require some form of oversight by the Head Office Actuary when major investment decisions are made by the Fiji operation.

- 1) to review the investment policy of the insurer on a regular basis so that it remains appropriate in light of the changes in business and economic environment;
- 2) to ensure the investment policy is consistent with the asset-liability management strategies required to support any new products;
- 3) to ensure that the investment policy of the participating fund is consistent with the bonus and/or dividend policy of the insurer;
- 4) to ensure that risk management functions continue to be appropriate;
- 5) to review the adequacy of internal control systems that directly support investment activities; and
- 6) to ensure resources dedicated to the investment activities of the insurer are sufficient to implement and manage the approved investment policy and any other activities requested by the Board of Directors.

b) Reporting to the Board

The IC shall report regularly to the Board. If the Board delegates authority to the IC to make investment decisions on its behalf, the IC should report on any and all decisions of material consequence, to each meeting of the Board.

4.4 Investment Managers

Investment managers should be qualified and competent to carry out their assigned task. Their work should be monitored sufficiently closely to ensure that the insurer's strategy is being followed. These points equally apply regardless of whether an external or internal manager is used for this purpose.

4.5 Investment Concentration Limits

Limits are not specified at this stage for concentration of investments in an entity or a group of related⁴ entities by a life or general insurance company.

4.6 Risk Management

Insurers should have in place comprehensive risk management policies and systems capable of identifying, monitoring, measuring, reporting and controlling risks associated with investment activities. The risk management function should:

⁴ As defined in the Insurance Act 1998.

- (a) monitor compliance with the approved investment policy;
- (b) formally note and promptly report breaches;
- (c) review asset risk management activity and results over the past period;
- (d) review asset/liability and liquidity position;
- (e) establish an internal rating system to be consistent with the overall objective of the invest policy;
- (f) assess the appropriateness of the asset allocation limits; and
- (g) report regularly to senior levels of management.

4.7 Internal Controls

The insurer must establish adequate systems of internal control to ensure that assets are managed in accordance with the overall investment policy, and the legal and regulatory requirements. Key controls include but are not limited to segregation of duties, approvals, verifications and reconciliations.

4.8 Audit

Insurers should have an audit of their investment activities which ensures timely identification of internal control weaknesses and operating system deficiencies. If the audit is performed internally, it must be independent.

4.9.1 Audit coverage should be provided by competent professionals who are knowledgeable of the risks inherent in the assets held. Concerns in regards to investment activity must be reported to senior management and the Board of Directors.

4.9.2 Auditors should evaluate the independence and overall effectiveness of the insurer's asset management functions. They should also review the insurer's asset portfolio and written investment policies and procedures to ensure compliance with the insurance company's regulatory obligations.

5. Implementation Arrangements

This Notice applies to all insurance companies licensed under the Insurance Act, and becomes effective from 1st April, 2004.