

Reserve Bank of Fiji
Insurance Supervision Policy Statement No.10

NOTICE TO INSURANCE COMPANIES LICENSED UNDER THE INSURANCE ACT 1998

THE ROLE OF INSURANCE ACTUARIES IN FIJI

PART I: PRELIMINARY

1.0 Introduction

- 1.1 This notice is issued under Section 3(2)(a) and Section 168 of the Insurance Act 1998 (the Act) as part of the Reserve Bank of Fiji's standards governing the conduct of insurance business in Fiji. This notice sets out the responsibilities of licensed insurers and their appointed actuaries. An actuary must be appointed for both life and general insurance companies.

2.0 Objective of the Policy

- 2.1 The purpose of this policy is to outline the minimum responsibilities of licensed insurers and their actuary appointed to carry out the actuarial functions of licensed life and general insurers in Fiji.
- 2.2 This policy aims to ensure that appointed actuaries are consistent in the conduct of their actuarial role, by aligning to international sound practices that support the financial soundness of the insurance industry.

3.0 Background and Outline of the Approach

- 3.1 An actuary is defined as a professional trained in evaluating the financial implications of contingent events¹. Actuaries require an understanding of the stochastic nature of insurance, the risks inherent in assets and the use of statistical models.
- 3.2 The prudent management of an insurance business depends on broad risk management techniques, such as the use of scenario testing and statistical estimation. Therefore, supervisory authorities rely on the expertise, training and professionalism of actuaries to assist in their roles.
- 3.3 In preparing the requirements of this policy statement, reference has been made to the recommendations of the International Association of Insurance Supervisors (IAIS), international sound practices and powers under the Act.

¹ Source: The International Association of Insurance Supervisors

PART II: GENERAL REQUIREMENTS OF THE POLICY

4.0 Appointment of the Actuary

- 4.1 Each insurer must appoint an actuary that meets the fit and proper requirements outlined by the Reserve Bank of Fiji. The Reserve Bank must be notified within 14 days, of the following details regarding the appointed actuary:
- (a) name;
 - (b) experience and qualifications;
 - (c) date of the appointment; and
 - (d) other particulars required by the Reserve Bank.
- 4.2 If the appointed actuary fails to meet the fit and proper requirements or perform their role adequately, the Reserve Bank may by notice in writing, direct the insurer to appoint another actuary.
- 4.3 At a minimum, the actuary to be appointed must:
- (a) be a fellow of a professional actuarial body that is satisfactory to the Reserve Bank;
 - (b) not hold the position of Director or Chief Executive Officer or Auditor of the insurer that it will be assessing;
 - (c) not hold the position of Director or Chief Executive Officer of a body corporate that is related to the insurer, unless the related body corporate is a subsidiary of the insurer;
 - (d) have at least 5 years experience in the provision of actuarial services;
 - (e) not have, committed an offence against the Insurance Act of Fiji 1998, any other Laws of Fiji, or laws of a foreign country, particularly offences with a financial nature as a result of dishonest conduct;
 - (f) not have been declared bankrupt; and
 - (g) not pose conflicts of interest in having to perform the actuarial role.
- 4.4 The insurer must inform the Reserve Bank in writing, within 30 calendar days after any resignation/retirement or termination of the appointed actuary. If the appointed actuary is terminated, the Reserve Bank must be informed of the grounds for termination.

5.0 Actuarial Investigation

- 5.1 Each insurer is required to cause an investigation to be made by an actuary, into the financial affairs of the insurer that will be disclosed in the Financial Condition Report (FCR). Furthermore, the insurer will also be required to cause an investigation to be made by an actuary, into the valuation of the insurer's liabilities that will be disclosed in the Liability Valuation Report (LVR)

- 5.2 The FCR and LVR for Life insurers must be prepared on an annual basis. General insurers must also, on an annual basis, prepare a LVR. The FCR however, for a general insurer, is to be prepared at the end of every third financial year.
- 5.3 The actuarial reports resulting from the actuarial investigation must include:
- (a) a certificate (attached as Annexure I) signed by the insurer's principal officer attesting that full and accurate particulars of every policy under which there is a liability (either existing or contingent) have been furnished to the actuary for the purpose of the investigation; and
 - (b) a statement, in the prescribed form, of the insurer's business existing at the date to which the accounts of the insurer are made up for the purposes of the abstract.
- 5.4 The FCR and LVR may be submitted as separate reports or combined, as a single report.
- 5.5 Where the insurer is a branch of a foreign entity, the FCR and the LVR must be prepared in respect of the Fiji branch, giving consideration to the financial circumstances of the head office that could affect the operations of the branch.

6.0 Duty of Disclosure

- 6.1 The appointed actuary of an insurer is required to immediately report to the directors of the insurer and to the Reserve Bank if it is satisfied that –
- (a) there has been a contravention of a provision of the Act;
 - (b) a criminal offence involving fraud or dishonesty has been committed;
 - (c) any transaction or dispute has taken place which will have a material effect on the solvency of the insurer;
 - (d) serious irregularities that jeopardise the interests of insureds, have occurred; or
 - (e) the insurer is unable, or likely to become unable, to meet its liabilities.
- 6.2 An appointed actuary that fails to comply with the disclosure of the above information will be liable for penalty as per Section 58 of the Act.
- 6.3 The actuary is required to inform the Reserve Bank immediately, of issues that may have material impact on the operations of the insurer or jeopardise the interests of policyholders. This includes instances where the Management of an insurer fails to take corrective action given as actuarial advice.

7.0 Obligations of the Insurer

- 7.1 The insurer must ensure that the systems that they have in place are suitable for accurate recording and storage of data and information. Moreover, the insurer must provide the appointed actuary with adequate and timely access to the data, information, reports and staff/consultants in order to carry out their actuarial duties.
- 7.2 If the appointed actuary is not furnished with the requested data, information, reports and staff the actuary may omit these from their evaluations. The actuary must however, explain the reasons for the omission of the information and the consequences of such omissions.
- 7.3 The insurer is required to ensure that the appointed actuary has adequate access to the Board of the insurer, senior management, external and internal auditors, the Reserve Bank and or any other relevant party while carrying out his actuarial role.

8.0 Additional Information

- 8.1 The Reserve Bank may direct the appointed actuary to conduct specific assessments of the insurer's operations, risk management or financial affairs. Upon completion of the assessment, the actuary is required to prepare a report that must be submitted to the Reserve Bank within three months from the date of the request. The cost of the specific assessment will be borne by the insurer.
- 8.2 The Reserve Bank may request for the specific actuarial review to be conducted by another actuary, other than the appointed actuary. The cost of the review will be borne by the insurer.
- 8.3 The Reserve Bank may also direct the insurer in writing to employ the services of another actuary to review the work of the appointed actuary. The cost of the review will be borne by the insurer.

PART III: REQUIREMENTS FOR LIFE INSURERS

9.0 The appointed actuary for a life insurer is required to:

- (a) prepare the insurer's Liability Valuation Report (LVR) on an annual basis;
- (b) prepare the insurer's Financial Condition Report (FCR) on an annual basis;
- (c) provide advice;
- (d) monitor and report on the interests of policyholders; and
- (e) report to the Board of the insurer and the Reserve Bank.

10.0 Actuarial Reports for Life Insurers

Liability Valuation Report

- 10.1 The Liability Valuation Report (LVR) covers the actuary's calculation of the life insurer's policy liabilities, including an allowance for IBNR claims. Annexure II of this policy statement provides an outline of what the LVR of a life insurer must include.
- 10.2 The actuary must ensure that the LVR clearly indicates which types of policy have been classified as participating and which as non-participating.
- 10.3 The actuary must ensure that the valuation of liabilities is carried out on a prudent basis, using appropriate actuarial method(s) and assumptions.

Financial Condition Report

- 10.4 The Financial Condition Report (FCR) covers an assessment of the life insurer's financial condition, the insurer's compliance with solvency requirements, an assessment of the licensed insurer's ongoing solvency, and the actuary's advice and recommendations for managing material risks that have an impact on ongoing solvency. Annexure II of this policy statement provides an outline of what the FCR of a life insurer must include.

11.0 Actuarial Advice

- 11.1 The advice/recommendations arising from the FCR and LVR or any other statutory advice that is to be provided to the insurer or the Reserve Bank by the appointed actuary, must be submitted in writing.
- 11.2 As required by Section 40 of the Act, a life insurer cannot issue a life insurance policy unless the rate of premium chargeable under the policy is a rate which has been approved by the directors, having regard to written advice from the actuary.

12.0 Interests of Policyholders

- 12.1 The appointed actuary must monitor that participating policyholders are treated fairly, and receive a fair proportion of the surplus in bonuses. Should these expectations not be met and/or the interests of policyholders be compromised, the appointed actuary is required to notify the Board immediately.
- 12.2 Should the Board fail to take heed of the appointed actuary's advice arising out of section 12.1, the actuary is obliged to inform the Reserve Bank of his concerns.

PART IV: REQUIREMENTS FOR GENERAL INSURERS

13.0 The appointed actuary for a general insurer is required to:

- (a) prepare the insurer's Liability Valuation Report (LVR) on an annual basis;
- (b) prepare the insurer's Financial Condition Report (FCR) at the end of every third financial year;
- (c) provide advice; and
- (d) report to the Board of the insurer and the Reserve Bank.

14.0 Actuarial Reports for General Insurers

Liability Valuation Report

- 14.1 The Liability Valuation Report (LVR) covers the actuary's calculation of the general insurer's reported claims, IBNRs and premium liabilities. Annexure III of this policy statement provides an outline of what the LVR of a general insurer must include.
- 14.2 The actuary must ensure that the valuation of liabilities is carried out on a prudent basis, using appropriate actuarial method(s) and assumptions.

Financial Condition Report

- 14.3 The Financial Condition Report (FCR) covers an assessment of the general insurer's financial condition, the insurer's compliance with solvency requirements, an assessment of the licensed insurer's ongoing solvency, and the actuary's advice and recommendations that have an impact on ongoing solvency. Annexure III of this policy statement provides an outline of what the FCR of a general insurer must include.

15.0 Actuarial Advice

- 15.1 The advice/recommendations arising from the FCR and LVR or any other statutory advice that is to be provided to the Board of the insurer or the Reserve Bank by the appointed actuary, must be submitted in writing.

PART V OVERSIGHT AND IMPLEMENTATION ARRANGEMENTS

16.0 Reserve Bank Oversight

- 16.1 The initial submission to the Reserve Bank, of each insurer's FCR and LVR must be for the 2011 financial year end, along with the insurer's audited financial statements.

- 16.2 The LVR and FCR for life insurers must be submitted on an annual basis, along with the insurer's audited financial statements.
- 16.3 The LVR for general insurers must also be submitted on an annual basis along with the insurer's audited financial statements. The FCR however, must be submitted with the insurer's audited financial statements at the end of every third financial year, following the initial submission prescribed in Para 16.1.
- 16.4 The Reserve Bank will assess the compliance of each LFI with the requirements of this Policy in the course of its supervision.

17.0 Penalties

- 17.1 The non-compliance of insurers with the requirements of the Act and this Policy Statement will result in the imposition of a maximum penalty of upto \$5000 and \$500 for every day during which the contravention continues. The penalty will be determined by the Reserve Bank.
- 17.2 If an actuary fails to comply with the disclosure information outlined in Section 63(1), a minimum fine of \$5000 or upto 12 months imprisonment will be imposed on the offender.

18.0 Implementation Arrangements

- 18.1 This notice applies to all life and general insurance companies licensed under the Insurance Act 1998.
- 18.2 The policy will be effective from 01 November 2011 and will be reviewed as deemed necessary.

Reserve Bank of Fiji
September 2011