Insurance Supervision Policy Statement No: 10 (Revised 2022)

MINIMUM REQUIREMENTS FOR THE ROLE OF INSURANCE ACTUARIES IN THE SUPERVISION OF INSURANCE COMPANIES IN FIJI

NOTICE TO INSURANCE COMPANIES LICENCED UNDER THE INSURANCE ACT 1998

Reserve Bank of Fiji
June 2022

PART I: PRELIMINARY

1.0 Introduction

1.1 This policy 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 and sets out the responsibilities of licensed insurers and their appointed actuaries. An actuary must be appointed for both life and general insurance companies licensed to conduct business in Fiji.

1.2 This policy replaces the version issued in 2011, with the Reserve Bank making reference to updated requirements issued by the International Association of Insurance Supervisors (IAIS), and developments in internationally accepted practices on the role of actuaries.

1.3 This policy outlines the minimum responsibilities to be complied by a licensed insurer when appointing its actuary, and 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 company, and contribute to the ongoing stability of the insurance industry.

2.0 Background and Outline of Approach

2.1 An actuary is defined as a professional trained in evaluating the financial implications of contingent events[1]. Actuaries require an understanding of the stochastic nature of insurance, the risks inherent in assets and the use of statistical models.

2.2 In addition, appointed actuaries play an important role by providing independent advice to boards and senior management, on key financial risks facing an insurer. Actuaries also provide advice on the adequacy of risk assessment, technical provisions, capital adequacy, premium and pricing activities, reinsurance arrangements, investment policies and stress testing of the future financial condition of a financial institution.

2.3 Regardless of regulatory traditions, the role of the actuary, both within insurance companies, and in line with regulatory expectations, is considered critical to the maintenance of financially sound insurance companies.

2.4 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.

[1] *Source: The International Association of Insurance Supervisors as set out in the IAIS Glossary*

PART II: REQUIREMENTS OF THE POLICY

3.0 Appointment of the Actuary

3.1 Each insurer must appoint an actuary that meets the fit and proper requirements outlined by the Reserve Bank of Fiji[2]. The responsibility of appointing the actuary lies with the board of the insurer. In carrying out this responsibility, the board must ensure that the appointment is in accordance with the requirements set out in this policy statement.

3.2 The Reserve Bank must be notified within 14 days, of the following details regarding a licensed insurer's appointed actuary:
- (a) name;
- (b) experience and qualifications;
- (c) date of the appointment; and
- (d) other particulars required by the Reserve Bank.

3.3 If the appointed actuary fails to meet the fit and proper requirements, or to perform their role adequately, the Reserve Bank may by notice in writing, direct the insurer to appoint another actuary.

3.4 At a minimum, the appointed actuary 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 Act, or 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.

3.5 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.

3.6 Each insurer must rotate the appointed actuary (either by firm or by individual) every 5 years, at the most. Where the rotation is not by firm, the insurer must ensure that the actuary involved is replaced to meet the rotation requirement.

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[2] *ISPS 7 on the Fit & Proper Requirements for Insurance Companies and Insurance Brokers in Fiji, June 2008*

3.7 Failure to appoint an actuary or fill a vacancy may result in the Reserve Bank's appointment of an actuary for the insurer, whose remuneration will be paid by the insurer.

4.0 Responsibilities of the Board in respect of the Appointed Actuary

4.1 The board must ensure that the duties of the appointed actuary can be conducted without any interference. This includes ensuring that arrangements are in place to:

(a) provide the appointed actuary with direct access to the board, senior management, external and internal auditors, the Reserve Bank and/ or any other relevant party while carrying out his actuarial role;

(b) keep the appointed actuary informed about the licensed insurer's business plans;

(c) ensure that the appointed actuary is provided with sufficient resources to effectively discharge their duties, including sufficient human resources as well as information technology and other appropriate systems;

(d) provide the appointed actuary with full access rights to relevant records, accounts and any other information of the licensed person; and

(e) enable the appointed actuary to request and receive information or explanation from the senior management and officers of the licensed insurer, as necessary.

4.2 If the appointed actuary is not furnished with the requested data, information, reports and staff, the actuary may omit these from his evaluations. The actuary must however, explain the reasons for the omission of the information and the consequences of such omissions.

4.3 An insurer must take all reasonable steps to ensure that all working papers and other documentation of the appointed actuary in relation to the actuarial review conducted, are retained for a period of seven (7) years, and provides those papers and documents to the Reserve Bank when requested to do so.

5.0 Responsibilities of the Appointed Actuary

5.1 Actuarial Investigation

5.1.1 Each insurer is required to cause an investigation to be made by an appointed 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).

5.1.2 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.

5.1.3 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.

5.1.4 The FCR and LVR may be submitted as separate reports or combined, as a single report.

5.1.5 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.

5.2 Solvency Margin Calculations

5.2.1 The ISPS No: 3A[3] and No. 3B[4] (*Revised*) require the appointed actuary of a licensed insurer to be responsible to the board and senior management of the insurer in performing or reviewing all aspects of the solvency margin calculations, and must ensure that the calculations are complete and accurate.

5.2.2 If any simplifying assumptions are made or simplifying methodologies are used in calculating the insurer's minimum solvency capital requirement, the appointed actuary must:
(i) ensure that such assumptions or methodologies result in a more prudent assessment of the insurer's minimum solvency capital requirement;
(ii) disclose such assumptions or methodologies in any associated reports; and
(iii) justify such assumptions or methodologies on the grounds of materiality or that they provide a more conservative outcome.

5.2.3 The appointed actuary must take reasonable steps to avoid actual and potential conflicts of interest in the course of carrying out his duties.

5.2.4 The appointed actuary must take reasonable steps to ensure that any communication which he is associated with is effective, not misleading and

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[3] *ISPS No. 3A - Solvency Requirements for Insurers Licensed to Conduct Life Insurance Business in Fiji*
[4] *ISPS No. 3B - Solvency Requirements for Insurers Licensed to Conduct General Insurance Business in Fiji*

cannot be misinterpreted. This includes ensuring that the technical components of the communication are not overly complex or excessively detailed as to cloud or impair effective and informed decision-making.

5.2.5 The appointed actuary must ensure that communications with the board and senior management on actuarial matters are timely and that the method of communication is appropriate, having regard to the purpose and significance of the subject matter. This must entail supplementing written reports with briefings to the board and senior management to properly explain and emphasise the issues raised by the appointed actuary.

6.0 Actuarial Advice Framework

6.1 Each insurer is required to have a board-approved actuarial advice framework for the provision of actuarial advice. The board must consider the advice provided by the appointed actuary in relation to the actuarial advice framework.

6.2 The actuarial advice framework must appropriately be documented and include at a minimum:

- identification of areas where actuarial advice is required within the company;
- a policy identifying the materiality of an item requiring actuarial advice based on its importance to the financial condition of the insurer or the interests of policyholders. Only material matters would be required to be the subject of formal actuarial advice;
- where necessary, a temporary delegation arrangement for periods when the appointed actuary is absent; and
- the insurer's approach to managing potential conflicts in the appointed actuary's role.

7.0 Duty of Disclosure

7.1 The appointed actuary of an insurer is required to immediately report to the directors of the insurer and to the Reserve Bank if he or she 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 would 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.

7.2 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.

7.3 The appointed 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.

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 appointed 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. Actuarial Reports for Life Insurers

The appointed actuary for a life insurer is required to:

(a) prepare the insurer's LVR on an annual basis;
(b) prepare the insurer's 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.

9.1 Liability Valuation Report (LVR)

9.1.1 The 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.

9.1.2 The actuary must ensure that the LVR clearly indicates which types of policy have been classified as participating and which as non-participating.

9.1.3 The actuary must ensure that the valuation of liabilities is carried out on a prudent basis, using appropriate actuarial method(s) and assumptions outlined under section 8 of ISPS No. 3A (*Revised)* on ***Solvency Requirements for Insurers Licensed to Conduct Life Insurance Business in Fiji***.

9.2 Financial Condition Report (FCR)

9.2.1 The 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.

9.2.2 ISPS No. 3A (*Revised)* outlines the solvency capital requirements that should be maintained by life insurers to ensure that it is able to meet claims as they fall due, and the appointed actuary must calculate the solvency position in line with the requirements of this policy statement.

10.0 Actuarial Advice

10.1 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.

10.2 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.

11.0 Interests of Policyholders

11.1 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.

11.2 Should the board fail to take heed of the appointed actuary's advice arising out of section 11.1, the actuary is obliged to inform the Reserve Bank of their concerns.

PART IV: REQUIREMENTS FOR GENERAL INSURERS

12.0 Actuarial Reports for General Insurers

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.

12.1 Liability Valuation Report

12.1.1 The 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.

12.1.2 The actuary must ensure that the valuation of liabilities is carried out on a prudent basis, using appropriate actuarial method(s) and assumptions outlined under section 8 of ISPS No. 3B (*Revised*) on ***Solvency Requirements for Insurers Licensed to Conduct General Insurance Business in Fiji.***

12.2 Financial Condition Report

12.2.1 The 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.

12.2.2 ISPS No. 3B (*Revised*) outlines the solvency capital requirements that should be maintained by a general insurer, to ensure that it is able to meet claims as they fall due, and the appointed actuary must calculate the solvency position in line with the requirements of this policy statement.

12.3 Actuarial Advice

12.3.1 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

13.0 Reserve Bank Oversight

13.1 The LVR for life insurers must be submitted by 28 February each year and FCR on an annual basis, along with each insurer's audited financial statements.

13.2 The LVR for general insurers must also be submitted by 28 February each year and the FCR, must be submitted with the insurer's audited financial statements at the end of every third financial year.

13.3 The Reserve Bank will assess the compliance of each LFI with the requirements of this Policy in the course of its supervision.

14.0 Penalties

14.1 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 up to $5000 and $500 for every day during which the contravention continues. The penalty will be determined by the Reserve Bank.

14.2 If an actuary fails to comply with the disclosure information outlined in Section 63(1) of the Act, a minimum fine of $5000 or up to 12 months imprisonment will be imposed on the offender.

15.0 Implementation Arrangements

15.1 This notice applies to all life and general insurance companies licensed under the Insurance Act 1998.

15.2 The policy will be effective from 1st September 2022 with full compliance required within 3 months from the effective date.

Reserve Bank of Fiji
June 2022 (Revised)

Annexures

Annexure Ⅰ: Declaration of Compliance Certificate
Annexure Ⅱ: Actuarial Reports for Life Insurers
Annexure Ⅲ: Actuarial Reports for General Insurers

(INSURANCE COMPANY'S LETTER HEAD) Annexure 1

Declaration of Compliance with the Reserve Bank of Fiji's Insurance Supervision Policy Statement No. 10 (Revised 2022): Minimum Requirements for the Role of Insurance Actuaries in the Supervision of Insurance Companies in Fiji, issued under section 3(2)(a) and section 168 of the Insurance Act 1998

I, ____________________, ______________________, hereby affirm that full and
[Name of Principal Officer] [Title]
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.

Dated at___________________, this________day of____________________, 20_____.

Signature: ________________________

Designation: ________________________

Company Stamp:

Annexure II

ACTUARIAL REPORTS FOR LIFE INSURERS

- ❖ Arising out of PART III of the policy, the appointed actuary must prepare a Liability Valuation Report (LVR) and Financial Condition Report (FCR).

- ❖ The LVR and FCR must be addressed to the insurer's Board and include:
  a) The name and signature of the appointed actuary;
  b) The scope and purpose of the reports;
  c) The party that commissioned the appointed actuary; and
  d) Any restrictions that may have been placed on the appointed actuary's assessments and the reasons for them.

- ❖ The actuary need not conform to the exact order in which the lists are presented below. While compiling the report, the actuary must make reference to the section (as outlined below) that is being addressed. For example, upon commenting on the insurer's business and its product lines, the actuary must indicate that the commentary falls within "Section 1.0 – Background".

- ❖ In instances where the LVR and the FCR are combined, sections that are covered in both the LVR and FCR need only be mentioned in one report. These sections include: part of *'Background'*, *'Summary of the LVR, and Limitations'*.

❖ LIABILITY VALUATION REPORT (LVR)

The LVR covers the actuary's calculation of the insurer's policy liabilities, including an allowance for IBNR claims.

The LVR must include:

1.0 Background

- provide a summary of the insurer's products and the amounts of business in each, showing new and in force business and regular and single premium separately

2.0 Data

- describe and summarise the data that is used in the valuation
- describe and comment on the checks that have been carried out on the data used in the valuation
- comment on the completeness and accuracy of the data used in the valuation
- report on any qualifications on the use of the data and how this has been dealt with

3.0 Valuation Method

- describe the valuation method(s) used
- provide reasons for the selection of the valuation method(s) used
- provide reasons for any change in the valuation method(s) from the previous year

4.0 Assumptions

- describe and comment on the assumptions used and how they were derived
- provide reasons for any changes in assumptions from the previous year

5.0 Valuation Results

- show the results of the liability valuation conducted on each product group and by statutory fund

6.0 Reconciliation

- provide a reconciliation of changes in surplus or profit over the last year for each statutory fund and for the insurer as a whole

7.0 Limitations

- comment on any limitations that may have been encountered during the valuation, including any information that was not made available to the actuary by the insurer

❖ FINANCIAL CONDITION REPORT (FCR)

The FCR comprises an assessment of the licensed 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.

The FCR must include:

1.0 Background

- provide an overview of the insurer’s business that includes a summary of the products written by the insurer
- comment on any company specific issues relating to the insurer's financial condition or solvency
- comment and discuss any material changes to the conclusions in the previous year’s FCR
- comment on any regulatory requirements imposed on the insurer by the Reserve Bank during the year

2.0 Experience Analysis and Assumptions

- compare actual experience with assumptions for each significant product

- provide reasons for any significant variations between the assumed and actual experience for major products
- describe and comment on any significant trends in actual experience for each significant product
- comment on the measures/steps taken to address any adverse variations of assumed and actual experience

3.0 Summary LVR

- summarise key result areas arising out of the LVR
- assess and comment on material issues arising out of the LVR

4.0 Statutory Funds

- assess the statutory funds of those insurer's with more than one statutory fund
- comment on the insurer's compliance with the requirements of the Insurance Act with respect to those statutory funds

5.0 Assets

- comment on the insurer's investment strategies and assets and their suitability for the liabilities
- advise on any constraints necessary on investments
- comment on derivatives, credit risks, liquidity risks and mismatching issues
- establish any necessary asset reserves appropriate for solvency in addition to the inadmissible asset requirements
- comment on the valuation of assets and adjust for the purposes of solvency, where necessary

6.0 Solvency

- assess the insurer's solvency position in accordance with the Act at balance date
- assess and quantify the ability of the insurer to meet its solvency requirements on an ongoing basis, for at least 3 years
- advise on the current and expected future need for capital, and comment on the availability of capital
- comment on the reasonableness of new business projections and other business plans used in assessing the ongoing solvency position
- comment on and quantify of possible major risks to ongoing solvency and make recommendations on them if appropriate

7.0 Business Risks

- comment on the suitability of the insurer's risk management framework or qualify the report if unable to carry out such assessment
- describe and comment on any external risks to the insurer's business

8.0 Policy Terms

- assess and comment on the suitability of premium rates of the insurer's products

- comment on any unusual policy terms and conditions of the insurer's products that may affect the financial condition of the company
- investigate any guarantees, options and whether any special allowance should be made for them

9.0 Reinsurance

- describe the insurer's reinsurance arrangements and their suitability for the insurer

10.0 Distribution of Profit/Surplus

- comment on the effects on solvency as a result of the proposed distribution of profit/surplus
- assess the insurer's policy on the payment of dividends, distribution of surplus, and transfers between statutory funds
- comment on the equity to the policyholders, and between groups of policyholders, of the proposed distribution of profit/surplus

11.0 Limitations

- comment on any limitations that may have been encountered during the compilation of the FCR, including any information that was not made available to the actuary by the insurer

12.0 Conclusions/Recommendations

- discuss the insurer's financial condition and solvency position
- discuss material risks to solvency and financial condition
- comment on the actions taken by the insurer on recommendations made in the previous FCR
- provide recommendations

Annexure III

ACTUARIAL REPORTS FOR GENERAL INSURERS

- Arising out of Part IV of the policy, the appointed actuary must prepare a Liability Valuation Report (LVR) and Financial Condition Report (FCR).

- The LVR and FCR must be addressed to the insurer's Board and include:
  a) The name and signature of the appointed actuary;
  b) The scope and purpose of the reports;
  c) The party that commissioned the report; and
  d) Any restrictions that may have been placed on the appointed actuary's assessments and the reasons for them, or a statement to the effect that there were no such restrictions.

- The actuary need not conform to the exact order in which the lists are presented below. While compiling the report or reports, the actuary must prepare a checklist referencing the section of the report in which each of the requirements of this Annex are met. The checklist must be submitted to the Reserve Bank with the report.

- In instances where the LVR and the FCR are combined, sections that are covered in both the LVR and FCR need only be mentioned **once**. These sections include: part of *'Background'*, *'Summary of the LVR' and Limitations'*.

- **LIABILITY VALUATION REPORT**

  The LVR covers the actuary's calculation of the insurer's reported claims, IBNR and premium liabilities.

  The LVR must include:

1.0 Background

- provide a summary of the insurer's product lines and the amounts of business in each

2.0 Data

For data used in the valuation of claims liabilities:

- describe the data that is used in the valuations
- summarise the data that is used in the valuations
- describe the checks that have been carried out on the data used in the valuations
- comment on the checks that have been carried out on the data used in the valuations
- provide a professional opinion of the completeness and accuracy of the data

- report on any qualifications on the use of the data, and how this has been dealt with. If there are no qualifications, make a statement to confirm that is the case.

For data used in the valuation of premiums liabilities:

- describe the data that is used in the valuations
- summarise the data that is used in the valuations
- describe the checks that have been carried out on the data used in the valuations
- comment on the checks that have been carried out on the data used in the valuations
- provide a professional opinion of the completeness and accuracy of the data
- report on any qualifications on the use of the data, and how this has been dealt with. If there are no qualifications, make a statement to confirm that is the case.

3.0 Valuation Methods

- describe the valuation method(s) used
- provide reasons for the selection of the valuation method(s) used
- provide reasons for any change in the valuation method(s) from the previous year

4.0 Assumptions

- describe and comment on the assumptions used and how they were derived
- provide reasons for any changes in assumptions from the previous year

5.0 Valuation Results

- show the valuation results for reported claims, IBNRs, and premium liabilities for each class of business, gross and net of reinsurance
- show allowances for expenses, recoveries, discounting and risk margins (if any), separately

6.0 Uncertainty

- identify areas of uncertainty in the results of the valuation
- discuss areas of uncertainty in the results of the valuation
- show the effects of scenario tests on the most significant assumptions used
- discuss the effects of scenario tests on the most significant assumptions used

7.0 Reconciliation

- provide reconciliations to the previous year's valuations for actual claims against expected claims, changes to methods and assumptions, and adjustments for new claims
- compare actual claims development with that assumed in the previous year's valuations, including allowance for the release of risk and other margins, and provide reasons for any significant variations

8.0 Limitations

- comment on whether any limitations have been encountered during the valuation, including any information that was not made available to the actuary by the insurer

❖ FINANCIAL CONDITION REPORT (FCR)

The FCR covers an assessment of the licensed 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.

The FCR must include:

1.0 Background

- provide an overview of the insurer's business that includes a summary of the products written by the insurer, the insurer's market position and business plans, the distribution channels used by the insurer, recent proposed changes to the insurer's product offering, and any other information to give an overview of the insurer's operations and strategy
- comment on any company specific issues affecting or likely to affect the insurer's financial condition or solvency
- comment and discuss any material changes to the conclusions in the previous FCR
- comment on any regulatory requirements imposed on the insurance industry or specific requirements on the insurer by the Reserve Bank during the year

2.0 Experience Analysis and Assumptions

- compare actual experience with assumptions used for pricing and business plans, and profitability, for each significant class of insurance and for the company as a whole
- provide reasons for any significant variations between the assumed and actual experience for major lines
- describe and comment on any significant trends over at least the last 3 years in actual experience for each significant class of insurance
- comment on the measures/steps taken to address any adverse variations of assumed and actual experience and make recommendations on any further steps necessary.

3.0 Summary LVR

- summarise key result areas arising out of the LVR
- assess and comment on material issues arising out of the LVR

4.0 Assets

- describe and comment on the insurer's investment strategies and assets and their suitability for the liabilities
- advise on any constraints necessary on investment of the assets
- comment on derivatives, credit risks, liquidity risks and mismatching issues
- establish any necessary asset reserves appropriate for solvency in addition to the reserves prescribed in the solvency policy
- comment on the valuation of assets and adjust for the purposes of solvency, where necessary

5.0 Solvency

- assess the insurer’s solvency position in accordance with the Act at balance date and any other revised solvency regulation issued by the Reserve Bank from time to time.
- assess and quantify the ability of the insurer to meet its solvency requirements on an ongoing basis, for at least 3 years
- advise on the current and expected future need for capital, and comment on the availability of capital
- describe and comment on the reasonableness of new business projections and other business plans and assumptions used in assessing the ongoing solvency position
- comment on and quantify if possible major risks to ongoing solvency and make recommendations on them if appropriate

6.0 Business Risks

- describe, and comment on the suitability of, the insurer’s risk management framework or qualify the report if unable to carry out such assessment
- describe and comment on any external risks to the insurer’s business and make recommendations where appropriate

7.0 Policy Terms

- assess and comment on the suitability of premium rates of the insurer’s products and describe and comment on the insurer’s pricing process
- comment on any unusual policy terms and conditions of the insurer’s products that may affect the financial condition of the company

8.0 Reinsurance

- describe the insurer's reinsurance arrangements and strategies, and advise on their suitability for the insurer
- comment on the calculation of the Maximum Event Retention and its suitability for the insurer's operations
- assess and comment on the level of risk concentration with each reinsurer

9.0 Limitations

- comment on any limitations that may have been encountered during the compilation of the FCR, including any information that was not made available to the actuary by the insurer, or report that there are no such limitations

10.0 Conclusions and Recommendations

- summarise and discuss insurer's financial condition and solvency position
- summarise and discuss material risks to solvency and financial condition
- comment on the actions taken by the insurer on recommendations made in the previous FCR
- provide recommendations and summarise recommendations contained elsewhere in the report.