Codes on

Actuarial Reporting

Requirements

FINANCIAL SERVICES AUTHORITY

Bois De Rose Avenue
P.O. Box 991
Victoria
Mahé
Republic of Seychelles

Tel: +248 4380800
Fax: +248 4380888
Website: www.fsaseychelles.sc
Email: enquiries@fsaseychelles.sc

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1. INTRODUCTION

It is important for the insurance industry to be aware that practicing actuaries adopt the applicability of different actuarial standards of practice to the various tasks they perform. An actuary is responsible for many areas under the broad category of insurance. Their many responsibilities extend from analyzing important data such as mortality, sickness, injury and disability rates for life insurance companies and collecting the data to forecast future risks and see how these predictions will affect various aspects of the insurer's business.

This code is being issued by the Financial Services Authority, (herein referred to as "the Authority") and by the powers conferred by section 33 of the Financial Services Authority Act, 2013, the Authority in respect of actuarial function to be carried out.

The code is to be observed by all insurance and reinsurance companies in Seychelles (herein referred to as "insurers") licensed under the Insurance Act, 2008.

The Authority requires all insurers to have a robust actuarial function that is well positioned, resourced and properly authorized and staffed.

The Appointed Actuary is required to be "fit and proper" and hence approved by the Authority.

The actuarial staff to be engaged by each insurer is hereby referred to as the Actuarial Function including the head of the actuarial function.

The actuarial function and the appointed actuary shall be required to have access - and periodically report to the Board.

2. OBJECTIVE

The objective of this code is to ensure that an insurer has an effective actuarial function capable of evaluating and providing advice to the insurer regarding, at a minimum, technical provisions, premium and pricing activities, and compliance with related statutory and regulatory requirements.

3. THE ACTUARIAL FUNCTION

3.1 The insurer shall apply for the approval of the appointed actuary. The Authority will apply a "fit and proper" test to such appointment, and shall either approve or deny the approval.

3.2 The actuarial function shall be required to have access to and periodically report to the Board on matters such as:

(i) any circumstances that may have a material effect on the insurer from an actuarial perspective;
(ii) the adequacy of the technical provisions and other liabilities;
(iii) the prospective solvency position of the insurer; and
(iv) any other matters as determined by the Board.

3.3 The actuarial function shall be required to evaluate and provide advice on the following:

(i) the insurer's actuarial and financial risks;
(ii) the insurer's investment policies and the valuation of assets;
(iii) the insurer's solvency position, including a calculation of minimum capital required for regulatory purposes and liability and loss provisions;
(iv) the insurers' prospective solvency position;
(v) risk assessment and management policies and controls relevant to actuarial matters or the financial condition of the insurer;
(vi) distribution of surplus;
(vii) underwriting policies;
(viii) reinsurance arrangements
(ix) product development and design, including the terms and conditions of insurance contracts;
(x) scenario and sensitivity testing;
(xi) sufficiency and quality of data used in the calculation of technical provisions; and
(xii) risk modeling and use of internal models, where applicable.

3.4 An insurer must ensure that the actuarial function has access to all relevant data, information, reports and staff of the insurer, and must take all reasonable steps to ensure access to all relevant service providers of the insurer, that its actuarial function reasonably believes are necessary to fulfill its responsibilities.

3.5 The actuarial function must have access to the insurer's Board, External Auditors and Internal Auditors as required.

4. MINIMUM REQUIREMENTS FOR APPOINTED ACTUARIES

4.1. The Appointed Actuary shall be credentialed by an internationally accepted actuarial organization.

4.2. Each Appointed Actuary shall apply, through the insurer, for approval to the Authority to act as Appointed Actuary for the regulated entity. The Authority will apply a "fit and proper" test to each such appointment, and shall either approve or deny the approval of each Appointed Actuary.

4.3. The Appointed Actuary shall not hold positions within or outside of the regulated entity that may create conflicts of interest or compromise his or her independence. The Board of the regulated entity shall determine whether the Appointed Actuary has any potential conflicts of interest, such as if his or her firm also provides auditing services to the regulated entity. If any such conflicts exist, the Board shall subject them to appropriate controls or order other arrangements.

4.4. If an Appointed Actuary resigns or is replaced, the regulated entity shall notify the Authority and give the reasons for the resignation or replacement. Such a notification shall include a statement from the regulated entity of whether there were any disagreements with the former Appointed Actuary over the content of the actuary's opinion on matters of risk management, required disclosures, scopes, procedures, or data quality, and whether or not such disagreements were resolved to the former Appointed Actuary's satisfaction.

4.5. The Authority may require a regulated entity to replace an Appointed Actuary when such person fails to adequately perform required functions or duties, is subject to conflicts of interest or no longer meets eligibility requirements.

5. SPECIFIC REQUIREMENTS FOR ACTUARIAL REPORTING

5.1 The Appointed Actuary of a regulated entity shall produce a report that comments on the Financial Condition of the Regulated Entity – the Financial Condition Report (FCR) for each financial year.

5.2 The Appointed Actuary shall be required to include the following in the FCR;

5.3.1 Statement by the Appointed Actuary

5.3.1.1 The Appointed Actuary must sign and state the date of completion of FCR.

5.3.1.2 A statement must be provided that the Appointed Actuary's reporting has been prepared in accordance with this code and generally accepted actuarial principles.

5.3.2 Information Requirements

5.3.2.1 The Appointed Actuary must advise the regulated entity of the information required, including data and reports needed, as well as the staff and relevant professionals with whom the Actuary will need to consult, in order to prepare the FCR. The Actuary must identify in the FCR all information upon which material reliance has been placed in preparing the FCR.

5.3.2.2 The Appointed Actuary must take reasonable steps to verify and document the consistency, completeness and accuracy of the information, including data and reports, provided by the regulated entity against the regulated entity's financial and other records. Material discrepancies that cannot be resolved with the regulated entity must be outlined in the FCR, together with the consequent limitations of the FCR.

5.3.2.3 The degree to which the Appointed Actuary relies upon information, including data and reports provided by the regulated entity, or upon testing of the data or other information by the regulated entity's internal auditor or other third parties, must be explained in the FCR, together with an assessment of the consequent limitations of the FCR.

5.3.2.4 Where the Appointed Actuary relies on work carried out by other actuaries, the Actuary must be satisfied as to the suitability of the work. Where the Actuary is not satisfied, alternative analyses must be undertaken and explained in the FCR.

5.3.2.5 Where the regulated entity does not provide adequate and timely access to information, including data and reports, and staff, as required by the Appointed Actuary, and the information cannot otherwise be practically obtained, the Appointed Actuary may omit from the FCR analysis that is dependent on that information, but must provide an explanation as to why it has been omitted and an assessment of the consequent limitations of the FCR.

5.3.2.6 Where the Appointed Actuary places reliance upon others to provide information required, and this information is limited, or not forthcoming, the Appointed Actuary must note this in the FCR, together with an assessment of the consequent limitations of the FCR.

5.3.3 Business Overview

5.3.3.1 An FCR must include general background information about the corporate structure and operations of the regulated entity.

5.3.3.2 General background information includes relevant information about the regulated entity's plans, including forward projections, and about any regulatory requirements imposed on the regulated entity by the Authority, in writing, that do not form part of the Insurance Act or any codes to the insurance industry.

5.3.3.3 An FCR must outline, consider and comment on material risks arising from the regulated entity's plans at the Effective Date.

5.3.4 Recent Experience and Profitability

5.3.4.1 An FCR must identify and comment on the past profitability of the regulated entity, including consideration of significant features or trends in the regulated entity's recent experience, over a period of at least three previous years, to the extent that such experience exists. This assessment must consider premiums, claims, expenses, commissions, investment return, and profits/losses, including any abnormal features.

5.3.4.2 Deviations of actual experience from the expected experience in the regulated entity's plan over at least the year since the previous balance date must also be discussed, including an assessment of the reasons for these deviations.

5.3.4.3 An FCR must comment on the steps taken, or proposed to be taken, by the Board or Management of the regulated entity to address areas of deviation and/or adverse experience.

5.3.5 Insurance Liability Valuation

5.3.5.1 An FCR must include a summary of the key results of, and considerations arising from, the Insurance Liability Valuation prepared at the Effective Date. The FCR must make reference to the Insurance Liability Valuation report, which can either be a separate report or included in the FCR.

5.3.5.2 An FCR must outline, consider and comment on material issues arising from or disclosed by the Insurance Liability Valuation.

5.3.6 Adequacy of Past Estimates of Insurance Liabilities

5.3.6.1 An FCR must include an assessment of the adequacy of past estimates of either outstanding claim liabilities or all insurance liabilities against the subsequent actual claims experience over a period of at least three years if experience exists.

5.3.6.2 An FCR must include comments on any material implications for the adequacy of current estimates of insurance liabilities, both including and excluding risk margins, arising out of the review of historical estimates.

5.3.7 Pricing and Premium Adequacy

5.3.7.1 An FCR must consider the adequacy of premiums, and must outline, consider and comment on material issues arising from the regulated entity's pricing processes and underwriting and claim management practices.

5.3.7.2 An FCR must consider whether expected future profitability arising from the assessment of premium adequacy is materially in line with the regulated entity's plans.

5.3.8 Asset and Liability Management

5.3.8.1 An FCR must outline, consider and comment on material issues arising from the regulated entity's approach to asset and liability management.

5.3.8.2 In undertaking this assessment, the Actuary must outline, consider and comment on material risks arising from the;

(i) regulated entity's liability profile and liquidity needs;
(ii) regulated entity's investment assets, in particular its investment strategy and the nature, quantum and performance of those assets;
(iii) regulated entity's other assets, in particular reinsurance and other recoveries;
(iv) regulated entity's insurance liabilities and non-insurance liabilities
(v) regulated entity's net assets; and
(vi) methods for valuing assets and non-insurance liabilities, particularly, changes in those methods.

5.3.9 Capital Management and Capital Adequacy

5.3.9.1 An FCR must outline the regulated entity's approach to setting and monitoring capital resources over time, including dividend policy, and the processes and controls in place to monitor and ensure compliance with the Minimum Capital Requirement (MCR) as determined in accordance with rules on solvency and capital requirements.

5.3.9.2 The Actuary must consider and comment on that approach, as well as material risks arising from its application, having regard to the regulated entity's MCR and needs for future capital to support the regulated entity's plans, including target and trigger capital adequacy ratios used by the regulated entity.

5.3.9.3 An FCR must include the regulated entity's MCR calculated in accordance with rules on solvency and capital requirements.

5.3.9.4 An FCR must outline, consider and comment on trends in the regulated entity's compliance with its MCR and its capital targets at least in the last three years at quarterly intervals, taking into account the impact of material seasonal variation in the MCR. The FCR must comment on the extent of, and reasons for, identified breaches of the regulated entity's MCR or of its capital targets during the past year, and the actions that were taken by the regulated entity to rectify such breaches.

5.3.9.5 The Actuary must consider and comment on the regulated entity's capacity to meet its MCR and its capital targets over at least the next three years.

5.3.10 Reinsurance Arrangements

5.3.10.1 An FCR must comment on material issues arising from the use of the regulated entity's specified reinsurance strategy, and from its actual current and past reinsurance arrangements, having regard to the regulated entity's liability profile. Reference must be made to the regulated entity's Reinsurance Management Strategy (RMS) and to the Reinsurance Arrangements Statements submitted to the Authority in accordance with the Codes on Reinsurance Arrangements.

5.3.10.2 In undertaking this assessment, the FCR must consider intra-group reinsurance arrangements and relationships between the regulated entity and other entity's or institutions within the corporate group.

5.3.10.3 An FCR must assess the method used to calculate the regulated entity's Maximum Event Retention (MER) and comment on whether the method is appropriate to the operations of the regulated entity.

5.3.10.4 The Appointed Actuary must outline, consider and comment on material risks arising from the regulated entity's reinsurance arrangements, having regard to the documentation and extent of placement of reinsurance arrangements, obligations to pay future reinsurance premiums, and the certainty of the regulated entity's ability to make reinsurance recoveries under these arrangements.

5.3.10.5 The FCR must outline, consider and comment on material risks arising from use of risk transfer products, such as financial reinsurance or purported reinsurance (whether financial or otherwise).

5.3.11 Risk Management

5.3.11.1 The regulated entity's risk management framework, comprising the regulated entity's risk management policies and procedures, processes and controls, is intended to identify the risks that may affect the financial condition of the regulated entity. The Appointed Actuary must comment on material risks arising from the risk management framework of the regulated entity. Where there are limitations on such commentary, particularly those caused by the Appointed Actuary's limited exposure to, and interaction with, the regulated entity's risk management strategy and practice, the Appointed Actuary must note this in the FCR, together with an assessment of the consequent limitations of the FCR.

5.3.11.2 An FCR must make reference to the regulated entity's Risk Management Strategy (RMS) that has been submitted to Authority in accordance with Codes on Risk Management. The RMS is intended to identify the elements of the regulated entity's risk management framework. The Appointed Actuary must comment on material risks arising from the use of the RMS, including the extent of implementation of the regulated entity's risk management framework. Where there are limitations on such commentary, particularly those caused by the Appointed Actuary's limited exposure and interaction with the regulated entity's risk management strategy and practice, the Appointed Actuary must note this in the FCR, together with an assessment of the consequent limitations of the FCR.

5.3.12 Conclusions and recommendations

5.3.12.1 The assessment of the financial condition of the regulated entity must include a discussion of the implications of material risks and issues identified during the assessment of the financial condition of the regulated entity.

5.3.12.2 Where the Appointed Actuary identifies material risks with adverse implications for the regulated entity's overall financial condition, the Appointed Actuary must include in the FCR, recommendations intended to address these risks.

5.3.12.3 The Appointed Actuary must also comment on the extent to which the regulated entity has addressed recommendations provided in the previous FCR.

6. REPORTING REQUIREMENTS

6.1 The actuarial function shall report to the Board:

(i) Any matter that may have an adverse material impact on the regulated entity's solvency or financial condition;
(ii) Any circumstances that may have a material effect on the regulated entity from an actuarial perspective;
(iii) The adequacy of the technical provisions and other liabilities;
(iv) The adequacy of reinsurance cover;
(v) If the regulated entity is in contravention of, or the actuarial function considers that the regulated entity is likely to contravene, any provisions of the Act, Regulations or the Code

concerning the matters specified above or any requirements concerning stated capital, solvency or financial condition;

6.2 The Appointed Actuary of a regulated entity shall submit a Financial Condition Report to the Board, within three months of the end of each financial year.

6.3 The Actuarial Function of a regulated entity shall submit an annual Solvency Statement determined in accordance with the Solvency Rules and generally accepted actuarial principles to the Board.

6.4 The regulated entity shall submit a Financial Condition Report to the Authority, within three months of the end of each financial year.

6.5 The regulated entity shall submit an annual Solvency Statement determined in accordance with the Solvency Rules and generally accepted actuarial principles at the end of each quarter to the Authority.

6.6 The Appointed Actuary must report to the Authority directly and immediately in circumstances where the regulated entity has breached, or is likely to breach solvency requirements.

6.7 The Appointed Actuary must report to the Authority directly and immediately in circumstances where the regulated entity has ceased holding effective reinsurance cover.

6.8 The Appointed Actuary is required to report to the Authority directly and immediately where a regulated entity or its directors may have contravened the Act or any other law and the contravention may prejudice the interests of the policyholders.

6.9 Where such a report is made directly to Authority, the Appointed Actuary is not under any obligation to disclose this to the Management and/or the Board of the regulated entity if the Appointed Actuary considers that by doing so, the interests of policyholders may be jeopardized; or has lost confidence in the Board or Management of the company.

7. ADDITIONAL CONSIDERATIONS FOR ACTUARIAL REPORTING

7.1 Materiality

7.1.1 The Appointed Actuary must take into account materiality when preparing an FCR. Where information, if misstated or omitted, would cause the results or opinions of the Appointed Actuary to be misleading to users of the FCR, then that information would be considered material (‘materiality’ for this purpose is independent of materiality within the meaning of Australian accounting standards). Whether something is material or not will always be a matter requiring the exercise of an Appointed Actuary’s judgement.

7.1.2 The level of detail to be provided in an FCR will depend on the size and complexity of the operations of the regulated entity and considerations of materiality.

7.1.3 In preparing an FCR, an Appointed Actuary must consider the financial position of the corporate group to which the regulated entity or insurance group belongs, in particular the potential of that corporate group to support or impact on the position of the individual regulated entity within the corporate group. Similarly, the contagion risk arising from exposures and relationships between regulated entities within the corporate group must be considered. The FCR must detail any such impacts.

7.1.4 A report shall not include information that is not material if it obscures material information.

7.2 Reliability

The purpose of this standard is to assist the achievement of the Reliability Objective by ensuring that in the reporting of work within its scope:

(i) sufficient information is included to enable users to judge the relevance of the contents of the reports;
(ii) sufficient information is included to enable users to understand the implications of the contents of the reports; and
(iii) information is presented in a clear and comprehensible manner.

7.3 Transparency

An actuarial report must describe any data or any other information used; and states the source of the data or other information.

7.4 Uncertainty

7.4.1 If there is any material uncertainty over the accuracy of the data, an actuarial report shall describe the uncertainty; and explain any approach taken to the uncertainty in the calculations or in the results.

7.4.2 An actuarial report shall indicate the nature and extent of any material uncertainty in the information it contains.

7.5 Assumptions

An actuarial report shall state:

(i) the material assumptions on which any calculations or judgments are based; and
(ii) any differences between the assumptions used or recommended in different parts of the work.

7.6 Rationale

An actuarial report shall describe the rationales for:

(i) any material assumptions used or recommended;
(ii) any differences between the assumptions used or recommended in different parts of the work; and
(iii) the measures and methods used in any material calculations.

7.7 Completeness

An actuarial report shall include all material matters relating to the work being reported on.

7.8 Calculations

For any material calculations that have been performed an actuarial report shall explain:

(i) the nature and objective of the calculations;
(ii) any specific measure(s) adopted; and
(iii) the methods used to achieve the calculation objective.

7.9 Cash flows

An actuarial report shall indicate the nature of any future cash flows being quantified, including their timing.

7.10 Comparisons

An actuarial report shall include a comparison with an actuarial report which has previously been provided for a similar purpose (if one exists), with explanations of any differences. The comparison shall cover assumptions, results of calculations, recommendations and other material matters. The comparison of the results of calculations shall include a reconciliation of the two sets of results.

7.11 Projections

An actuarial report that includes the results of calculations that are performed at regular intervals shall indicate the projected results from future corresponding calculations.

7.12 Comprehensibility

The style, structure and content of reports shall be suited to the skills, understanding and levels of relevant technical knowledge of their users.

8. ENFORCEMENT

The Authority shall enforce compliance to this code by exercising its powers to any person who contravenes this code or take any other measure as prescribed in the relevant law.

9. EFFECTIVE DATE

The effective date of this code is October 01st, 2018.

10. ENQUIRY

Enquiries on any aspect of this code shall be referred to;

The Director of Insurance and Pension Supervision Section
Financial Services Authority
P.O. Box 991, Victoria, Mahé
SEYCHELLES
Telephone: +248 4 380 800
Facsimile: +248 4 380 888
E-mail: insuranceservices@fsaseychelles.sc