



FINANTSINSPEKTIOON

## ADVISORY GUIDELINES OF THE FINANCIAL SUPERVISORY AUTHORITY

### **Requirements for report of responsible actuary**

The advisory guidelines have been established according to decision no. 1.1-7/13 of the management board of the Financial Supervision Authority of 19 March 2009 pursuant to Section 57(1) of the Financial Supervision Authority Act.

#### **1. Competence**

In accordance with Section 3 of the Financial Supervision Authority Act, the Financial Supervision Authority conducts financial supervision in order to enhance the stability, reliability, transparency and efficiency of the financial sector, to reduce systemic risks and to promote prevention of the abuse of the financial sector for criminal purposes, with a view to protecting the interests of clients and investors by safeguarding their financial resources, and thereby supporting the stability of the Estonian monetary system.

In accordance with Section 57(1) of the Financial Supervision Authority Act the Supervision Authority has the right to issue advisory guidelines to explain legislation regulating the activities of the financial sector and to provide guidance to subjects of financial supervision.

#### **2. Aim and scope**

These advisory guidelines have been established to provide content and explanatory guidelines to Section 53(5) of the Insurance Activities Act (hereinafter: **the IAA**).

The aim of the guidelines is to determine minimum requirements for a report of a responsible actuary in order to ensure unambiguous comprehension of Section 53(5) of the IAA and establish good practice for the content presented in the report.

The guidelines determine the minimum amount of information that a responsible actuary presents about the fields laid down in the IAA.

#### **3. Requirements for report**

The report of a responsible actuary is an independent assessment of the activities of an insurance undertaking with the aim of:

- confirming the accuracy of the amounts and assessments presented in the

annual report of the insurance undertaking;

- explaining the principles serving as a basis for the presented assessments, incl. describing the assumptions used in the assessments;
- disclosing the criteria serving as a basis for choosing the assessment methods and calculation bases;
- bringing attention to the activities (decision) of the insurance undertaking that according to the responsible actuary affect any further activities of the insurance undertaking to a significant extent.

The report must be unambiguously understandable and presented in brief.

The recommended presentation of the report is in 7 subdivisions, where subdivisions 2–6 correspond to Sections 53(5)(1)–(5) of the IAA.

Recommended subdivisions:

- 1) introduction and definitions;
- 2) sufficiency of technical provisions and financial liabilities and principles and methods for the calculation thereof;
- 3) committed assets and their correspondence to technical provisions and financial liabilities;
- 4) sufficiency of the insurance premiums applied by the insurance undertaking;
- 5) conformity of the available solvency margin to the requirements of this Act;
- 6) reinsurance programme of the insurance undertaking;
- 7) other important issues.

Definitions that differ in supervisory reports, the annual report and technical business plans of insurance undertakings and other documents referred to must be explained in the report of a responsible actuary in the subdivision of definitions.

In each subdivision of the report the responsible actuary shall provide **his/her assessment** of the required field (Sections 53(5)(1)–(5) of the IAA).

The responsible actuary shall justify and mention the origin of the data based on which the confirmed assessments are provided.

When referring to an audited annual report, the responsible actuary must confirm that he/she is the author of the referred results or that he/she has reassessed the relevant results and that these results provide a true and accurate reflection of the activities of the insurance undertaking.

All the references in the report must be understandable and exact (e.g. the name of the guidelines, approved by whom and the date of approval or reference to a specific chapter, page, etc., in the annual report).

If a responsible actuary does not agree to the assessments presented in the annual report, this must be expressed clearly and unambiguously.

## **4. Information presented in subdivisions**

### **4.1 Introduction and definitions**

Under this clause a responsible actuary shall:

- 1) describe the strategic decisions of the insurance undertaking that affect the assessments provided in Sections 53(5)(1)–(5) of the IAA;
- 2) explain the definitions used in the report in order for the report to be unambiguous and observable with the documents referred to in the report.

### **4.2 Sufficiency of technical provisions and financial liabilities and principles and methods for the calculation thereof (Section 53(5)(1) of the IAA)**

Under this clause a responsible actuary shall:

- 1) describe the types of technical provisions and methods based on the difference between calculation principles;
- 2) describe the difference between the methods and explain why different calculation principles are used;
- 3) describe the assumptions for the basic parameters made in assessing technical provisions during the financial year; in the case of any changes in the assumptions during the financial year the responsible actuary shall explain the reasons for the changes;
- 4) confirm the sufficiency of the provisions under the used assumptions (changes in the economic environment) and calculation principles;
- 5) provide an assessment of the formation of the provision of bonuses based on the insurance conditions and the strategy of the insurance undertaking for the distribution of additional profit.

A responsible actuary shall indicate the sufficiency/insufficiency of technical provisions, e.g. with the help of the liability adequacy test, and confirm the sufficiency/insufficiency of the provisions.

### **4.3 Committed assets and their correspondence to technical provisions and financial liabilities (Section 53(5)(2) of the IAA)**

Under this clause a responsible actuary shall:

- 1) describe the principles that serve as a basis for choosing the committed assets (e.g. references to the relevant strategy), explain whether the investment strategy clearly differentiates principles imposed on the committed assets as a cover for the liabilities arising from insurance contracts (incl. unit-linked life insurance, pension insurance contracts);
- 2) bring attention to changes in the investment strategy and justify the relevant changes;
- 3) compare the duration of the provisions with the duration of the assets

(maturity, interest guarantees);

- 4) provide his/her assessment of the suitability of the committed assets for the liabilities and investment strategy of the insurance undertaking;
- 5) provide an assessment of the value of assets suitable for covering liabilities and explain how the relevant value is found.

#### **4.4 Sufficiency of the insurance premiums applied by the insurance undertaking**

(Section 53(5)(3) of the IAA)

Under this clause a responsible actuary shall:

- 1) describe how the insurance undertaking assesses the sufficiency of the rates for different insurance types;
- 2) if it is possible to change parameters (the amount of costs, payment of risk cover, etc.) on the basis of insurance conditions, the responsible actuary shall describe the changes made within a year or to be made in the following financial year that affect the rates and also explain the reasons for the changes.

#### **4.5. Conformity of the available solvency margin to the requirements of this Act**

(Section 53(5)(4) of the IAA)

Under this clause a responsible actuary shall:

- 1) provide a list and value of the available solvency margin, in the event of any changes describe the changes and reasons for the changes;
- 2) provide an assessment of whether the value of the available solvency margin is sufficient to cover the risks related to the activities of the insurance undertaking;
- 3) describe in brief the basis for providing the assessment;
- 4) if the model of the insurance undertaking itself is used for assessing the sufficiency of the available solvency margin, also describe the result;
- 5) confirm the accuracy of calculating the required solvency margin;

Taking into account changes in the economic environment and in the activities of an insurance undertaking and other circumstances affecting the activities of the insurance undertaking, the responsible actuary shall provide an assessment of the sufficiency of the available solvency margin for the following financial year.

#### **4.6. Reinsurance programme of the insurance undertaking (Section 53(5)(5) of the IAA)**

Under this clause the responsible actuary shall describe the criteria for choosing the reinsurance programme and the profit/loss to be gained by the policyholder therefrom.

#### **4.7. Other important issues**

Under this clause the responsible actuary shall point out the relevant topics that were not discussed under the provisions arising from law, but which, according to the responsible actuary, affected in the financial year or will in the future affect significantly the activities of the insurance undertaking.

The responsible actuary shall point out main sources for the loss or profit that affected the result of the financial year and provide an assessment of the sustainability of the activities of the insurance undertaking.

Under this clause the responsible actuary shall provide an assessment of the decision made by the insurance undertaking on distribution of additional profit.

## **5. Entry into force**

These guidelines shall enter into force on 01 October 2009.

