Statement of Guidance

Asset Management & Investment Strategy For Insurance Companies

1. Statement of Objectives

To ensure that assets are managed in a sound and prudent manner that is consistent with the risk profile of the company and its liquidity needs. Insurance companies must hold sufficient assets to support their liabilities. All insurance companies are required to have an investment strategy, the complexity of which is dependant upon the nature of the business underwritten. Indeed some insurance companies may outsource this function and thus parts of the requirements below may be inapplicable.

2. Asset and Liability Management

Licensees must maintain the minimum net worth as prescribed by the Law, or the minimum regulatory net worth set by the Authority which ever is the greater. A licensee must hold sufficient assets of appropriate nature, term and liquidity to ensure that they are able to meet their liabilities as they fall due. Licensees should conduct a detailed analysis of the management of the asset/liability relationship in the development and the review of their investment policies and procedures.

3. Segregation of assets

Licensees who carry out both long-term and general business must keep separate accounts in respect of its long-term business. In accordance with the regulatory law all premiums paid into separate accounts shall be kept segregated from one another and independent of all other funds of the insurer, and are not chargeable with any liability arising from any other business of the insurer.

4. The Investment Process

4.1. The actual composition of an asset portfolio should be the product of a wellstructured investment process with appropriate steps for implementation. The investment process should include the following:

4.1.1 A statement of the strategic investment policy;

4.1.2 Systems that allow the identification, measurement and assessment of investment risks and the aggregation of these risks at different levels, for example for any separate portfolios held, for the insurance company and where appropriate for the group as a whole.

4.1.3 Adequate procedures for the measurement and assessment of investment performance;

4.1.4 Adequate and timely internal communication of information on investment activities;

4.1.5 Procedures to identify and control the dependence on and vulnerability of the insurer to key personnel and systems; and

4.1.6 Procedures should be clearly specified for any changes to the implementation of the investment strategy.

4.2. In addition, licensees should include the following in its investment process unless it is considered non-applicable given the size and complexity of the entity:

4.2.1 Key control structures, such as the segregation of duties, approvals, verifications and reconciliations. Remuneration policies should be designed to avoid potential incentives for unauthorised risk taking;

4.2.2 Internal procedures to review the appropriateness of the investment policies and procedures;

4.2.3 Rigorous and effective audit procedures and monitoring activities to identify and report weaknesses in investment controls and compliance;

5. The Investment Strategy

The investment strategy should contain the following features:

5.1. The asset allocation in terms of the asset mix over the investment categories selected. In general, no more than 20% of the actuarially determined reserves should be invested in equities without the prior approval of the Authority. In addition, property and casualty insurers should cover their technical reserves with short-term liquid assets;

5.2. Any limits on asset allocation by geographical area, markets, sectors, counter-parties and currency;

5.3. The overall approach to the selection of individual securities and other investment titles. The asset portfolio mix should pay due consideration to the risk profile of the insurer and its liquidity needs.

5.4. Details, where applicable, of any restrictions on assets;

5.5. Details on the company's approach to the use of derivatives and/or structured products, including evidence of adequate internal controls and monitoring of derivative positions and any restrictions in the use of derivatives and/or structured products. The use of derivative contracts must be specifically approved by the Authority; and

5.6. In the case of active management, a definition of the scope for investment flexibility, usually through the setting of quantitative asset exposure limits.

6. Operational issues

Operational policies for the implementation of the investment strategy should include:

6.1. Identification of who is authorised to undertake asset transactions;

6.2. Any restrictions on portfolio managers, for example, risk limits within the overall investment policy;

6.3. The selection and use of brokers;

6.4. Details of custodial arrangements;

6.5. The methodology and frequency of the performance measurement and analysis;

6.6. The agreed form and frequency of transaction reporting; and

6.7. In the case of outsourcing, a contract setting out the policies, procedures and quantitative limits of the investment.

7. Monitoring and Control

Specific aspects of this are the risk management function, internal controls, investment activity reports and audit function.

7.1. Risk Management

The risk management function should assess the adherence to the approved investment policy and also assess the appropriateness of the investment policy to changes in market conditions and other risk factors. This should include a review of the asset/liability and liquidity position. The reporting of the risk management function should be with sufficient frequency to provide adequate information to judge the changing nature of the insurer's asset profile, the risks that stem from it and the implications for the company's solvency.

7.2. Internal Controls

Adequate systems of internal control are required to ensure investment activities are properly supervised. Procedures should ensure:

7.2.1 Reconciliation between front office and back office, and accounting systems;
7.2.2 Observation of any restrictions on transactions;
7.2.3 Agreement of all parties to a transaction;
7.2.4 Prompt completion of formal documentation;
7.2.5 Reconciliation of positions reported by brokers;
7.2.6 Proper settlement and reporting of positions, and the identification of late payments or late receipts;
7.2.7 Conformance of asset transactions with prevailing market terms and conditions;
7.2.8 Independent checking of rates and/or prices; and that
7.2.9 Authority and dealing limits are not exceeded and all breaches can be

immediately identified.

7.3. Investment Activity Reports

Regular and timely reports should be produced which describe the company's exposure. Reports should include:

7.3.1 Details of, and commentary on, investment activity in the period and the relevant period end position;

7.3.2 Details of position by asset type;

7.3.3 An analysis of credit exposures by counterparty;

7.3.4 Details of any regulatory or internal limits breached in the period and the actions taken thereto;

7.3.5 Planned future activity; and

7.3.6 Details of the relative position of assets and liabilities.

8. Audit

Insurance companies' audits should cover investment activities and evaluate the independence and effectiveness of the insurer's asset management functions. Auditors should periodically review the insurer's asset portfolio to ensure it is consistent with the company's investment policies and procedures.