Statement of Guidance

Actuarial Valuation Reports

1. Statement of Objectives

1.1. This Statement of Guidance ("Guidance") is intended to provide guidance to regulated entities on the requirements for actuarial valuation reports as per the stipulations of Section 9(1) the Insurance Law, 2010. The guidance aims to ensure that licensees apply minimum standards in the preparation of actuarial valuation reports.

1.2. This Guidance is not intended to be prescriptive or exhaustive; rather this Guidance sets out the Cayman Islands Monetary Authority's ("CIMA" or "the Authority") minimum expectations on the structure and content of actuarial valuation reports.

1.3. The Authority recognises that the arrangements for the preparation of actuarial valuations will vary according to the nature, scale and complexity of a licensee.

2. Statutory Authority

2.1. Section 34 of the Monetary Authority Law (2016 Revision) (the "MAL") provides that the Authority may issue rules, statements of principles or guidance. It states:

"*(1) After private sector consultation and consultation with the Minister charged with responsibility for Financial Services, the Authority may–*

(a) issue or amend rules or statements of principle or guidance concerning the conduct of licensees and their officers and employees and any other persons to whom and to the extent that the regulatory laws may apply;…"

2.2. This document establishes the Statement of Guidance on Actuarial Valuation Reports. It should be read in conjunction with the Insurance Law, 2010, the Insurance (Reporting) Regulations, 2013 and other regulatory instruments issued by the Authority from time to time.

3. Scope of Application

3.1. This Statement of Guidance applies to all insurers regulated by the Authority and as defined by the Insurance Law, 2010 with the exception of a Class C insurer or a Class B insurer that does not write long term business. The Authority may in writing exempt other classes of insurers from the requirement per Section 9 (1) (b) of the Insurance Law, 2010 where it considers it appropriate, based on the nature, scale or scope of the insurance business involved.

3.2. The Authority acknowledges that insurers that are part of a group may be subject to group-wide valuation and reporting requirements. However, it is expected that the valuation details and methodologies specific to the business licensed in the Cayman Islands is reported separately.

3.3. The Guidance does not codify or amend any existing law. Where the Guidance is incompatible with existing law, the law takes precedence and prevails.

4. Definitions

4.1. For the purpose of this Guidance, the definitions below are provided.

a) **Actuary**: means a person who has qualified as an actuary by examination of the Institute of Actuaries in England or the Faculty of Actuaries in Scotland or the Society of Actuaries in the United States of America or Canada, and who is a current member in good standing of one of the above professional associations or a person in good standing with some other actuarial qualification who is recognised by the Authority as such for the purpose of this Law.

b) **Insurer:** means a person who is - (a) licensed under section 4(3)(a), (b), (c) or (d) of the Insurance Law to carry on insurance business; or (b) an association of individual underwriters including Lloyd's of London and other associations of underwriters recognised by the Authority for the purposes of section 18 or 31 of the Insurance Law.

5. General Guidance

5.1 Section 9(1) of the Insurance Law, 2010 establishes the requirements for insurers to submit a valuation report annually to the Authority as follows:

"An insurer shall, except as otherwise approved by the Authority in writing and subject to subsection (3), submit to the Authority by way of annual return, within six months of the end of its financial year -

… (b) an actuarial valuation of its assets and liabilities including loss and loss expense provisions, certified by an actuary approved by the Authority;…"

5.2 Section 9(3) of the Insurance Law, 2010 states:

"The following exemptions apply to the requirements of subsection (1)-

(a) a class C insurer or a class B insurer that does not write long term business is not required to make submissions under subsection (1)(b) or (c); and

(b) the Authority may in writing exempt other classes of insurer from the requirement under subsection (1)(b) where it considers it appropriate, based on the nature, scale or scope of the insurance business involved."

5.3 Insurers should ensure that actuarial valuation reports are prepared, at a minimum, in accordance with international best practice and the guidance in Appendix I. The details set out in Appendix I are considered to be minimum expectations and therefore the insurer should include additional pertinent information, as deemed necessary.

5.4 All points detailed in Appendix I should be addressed in the actuarial valuation report, where applicable. Should any points not be considered applicable, the rationale for the exclusion of such points should be explicitly highlighted in the accompanying correspondence to the Authority.

5.5 The order in which the sections are presented in the report is at the discretion of the insurer.

5.6 The information listed in Appendix I is representative of the type of information that the Authority would generally expect in the actuarial valuation report and should therefore not be considered to be exhaustive.

5.7 The Authority recognises that actuarial valuation reports submitted for the first time in the new format, following the effective date of the Statement of Guidance, may not be comparable to prior reporting periods. Subsequent reports, however, should include comparative analysis with prior periods.

5.8 In the event that an actuary is preparing the actuarial valuation report for the insurer for the first time, it would be prudent to communicate with CIMA regarding any concerns about the expectations of the comparative analysis.

6. Relations with the Authority

6.1. An insurer should notify the Authority in writing, of any changes to its actuarial arrangements.

6.2. A notification to the Authority of the termination of an actuary should, at a minimum, include the name of the actuary, date of termination, reason for termination and the plans for appointing a new actuary.

6.3. The regulated entity should be transparent with respect to its valuation and actuarial arrangements and should always disclose to the Authority any matter which could impact the quality or validity of the results of the actuarial valuation report.

Appendix I: Structure of Actuarial Valuation Reports

1. Narrative

The narrative section *of the report should include the following information:*

(1.1) Actuary's professional qualifications, credentials (and credentialing body) and experience with the classes of business and types of coverage under assessment;
(1.2) Actuary's relationship to the insurer (*reference section 4.2.4 of the Regulatory Policy - The Recognition and Approval of an Actuary*);
(1.3) Purpose of study / scope of engagement;
(1.4) Description of the policies issued (including in-force and run-off risks) and risk transfer agreements covered by the analysis, including: class of business, type of business, term of the agreements, type of risk, limits of coverage, counterparty, collateral requirements, existence of a trust, number of policies, premiums earned, premiums in force, segregated account values, funds held in trust, other collateral / funds withheld;
(1.5) Definitions of terms used in the report which may be subject to varying interpretations; and
(1.6) Disclosure of any material change in business strategy or planned changes (where observed); and comment on the impact/ potential impact these changes may have on the valuation.

2. Data Section

The data section should include the following information:

(2.1) Summary exhibits showing input data used in the analysis;
(2.2) Assumptions and limitations of data used in the analysis;
(2.3) Description of the types of data used including actual historical experience, industry experience, experience from similar programmes, published actuarial tables;
(2.4) Valuation date of the data being utilised;
(2.5) Parties providing the data including organisation and title;
(2.6) Appropriateness of the data utilised in the analysis;
(2.7) Basis of the data, for example, if the data is gross or net of reinsurance; and
(2.8) Disclosure of the nature, amount and rationale for any data adjustments.

3. Technical Section

The following technical information should be included in the report:

(3.1) Exhibits linking data, calculations and results;
(3.2) Exhibits providing a demonstration of the actuarial calculations used to determine results;
(3.3) Exhibits demonstrating the approach used to stress test results and performance, including assumptions used;
(3.4) Exhibits demonstrating the approach used for sensitivity testing of assumptions and why such an approach is considered appropriate;
(3.5) Exhibits demonstrating the use of simulation techniques and external models;
(3.6) Exhibits demonstrating the impact of the outwards reinsurance programme to the valuation;
(3.7) Description of the discount rate and actuarial methods utilised and why such methods are considered appropriate;
(3.8) Description of the basis and methodology utilised for determining the results and why such determinations are considered appropriate;
(3.9) Description of the risk margins incorporated into the results on an implicit and/or explicit basis, how the risk margins are determined and why they are considered appropriate; and
(3.10) Description of the approach used to stress test results and performance and why such approach is considered appropriate.

4. Risk Management / Capital Adequacy

The report should include the following information on risk management and capital adequacy assessment:

(4.1) Details of the assets backing the obligations of the insurer, including types of assets, terms, counterparties, where the assets are held, control over trading and disposition;
(4.2) Demonstration of how the required solvency margin is met;
(4.3) Description of the approach used for asset-liability matching and liquidity management and how it is evaluated;
(4.4) Description of derivatives, static hedging and dynamic hedging used in support of risk mitigation and demonstration of the impact on the results and capital adequacy;
(4.5) Description of how liabilities are grouped i.e. by class of business, geographical location etc.;
(4.6) Description of any actual or pending legal action to which the insurer is a party and the impact on valuation;
(4.7) Description of any large or unusual claims activity and the impact on the valuation; and
(4.8) Description of any catastrophe or environmental exposure and its impact on the valuation.

5. Summary Section

The summary section of the report should include the following information:

(5.1) Results summary for policies issued (including in-force and run-off risks) and risk transfer arrangements;
(5.2) Results under various methodologies, bases and scenarios used in the analysis; including justification for material changes in assumptions, methods and results/conclusions and quantification of financial implications of these material changes;
(53) Results on gross and net of reinsurance bases;
(5.4) Results of the stress testing and sensitivity testing conducted;
(5.5) Results based on simulation techniques or reliance on external models;
(5.6) Opinion on the adequacy and sufficiency of the assets backing the obligations of the insurer;
(5.7) Comparison of actual experience of the insurer with the result of previous year's actuarial valuation; highlighting and explaining where material differences between actual experience and previous valuation were observed; and
(5.8) Opinion on the impact that external trends including economic, legal, technological etc. that may impact the valuation results.