

**BERMUDA MONETARY AUTHORITY**

**INSURANCE DEPARTMENT**

**GUIDANCE NOTE #10**

**ROLE OF THE APPROVED ACTUARY**

**MARCH 2005**

## **GUIDANCE NOTE: ROLE OF THE APPROVED ACTUARY**

### **Introduction**

- 1 The role of the Approved Actuary is integral to the Bermuda insurance supervisory model. The primary role of the Approved Actuary is to opine on the adequacy of the Total Long-term Business Insurance Reserves, reflected in insurers' statutory financial statements and statutory financial returns, and any other matters specified by the Bermuda Monetary Authority (the "Authority"). This opinion assists the Authority in monitoring the adequacy of Total Long-term Business Reserves of insurers, as at a certain date, based on information known as at the date of the preparation of the opinion. This Guidance describes the eligibility criteria and the approval process for the Approved Actuary of an insurer. The Guidance Notes are intended to provide information on the application of the Insurance Act and corresponding regulations.
- 2 The Authority recognizes the need for clarity as to the scope and implementation of the provisions of the Insurance Act and related regulations ("the Act")<sup>1</sup> if the regulatory system is to command the confidence of both insurers and policyholders. It seeks, therefore, to ensure that those operating in Bermuda have a good understanding of the nature of the requirements and of the Authority's approach in implementing the Act.
- 3 While the Authority aims to provide clarity as to its approach, this Guidance Note is not intended to be exhaustive. The Authority, through the Guidance, hereby sets out its understanding of the legal provisions affecting the Approved Actuary and provides additional information about the Authority's regulatory approach and expectations regarding these matters.<sup>2</sup> Interpretation of statutes is ultimately a matter for the Bermuda courts. (The applicable sections of the Act are shown in brackets.)<sup>3</sup>
- 4 Other guidelines issued by the Authority contain additional information related to the fit and proper criteria of the Approved Actuary.
- 5 The Authority's guidance is of general application and seeks to take account of the wide diversity of institutions that may be licensed under the Act. There may be a need for

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<sup>1</sup> The insurance legislation is comprised of the Insurance Act 1978 (as amended by the Insurance Amendment Acts, 1981, 1983, 1985, 1995, 1998 and 2001) and the regulations promulgated under that Act (the "Regulations"). The Regulations are the Insurance Accounts Regulations 1980 (as amended by The Insurance Accounts Amendment Regulations 1981, 1985 and 1989) and the Insurance Returns and Solvency Regulations 1980 (as amended by The Insurance Returns and Solvency Amendment Regulations 1981, 1985 and 1989). References herein to the "Act" are to the Insurance Act 1978 (as amended) and the Regulations.

<sup>2</sup> The legislative summary in this Guideline is not intended to be a substitute for provisions of the Act. The reader is advised to refer to the provisions of the Act and not to rely on the interpretation of those provisions contained in this Guideline.

<sup>3</sup> "IA" means the Insurance Act 1978. "IAR" means the Insurance Accounts Regulations 1980. "IRASR" refers to the Insurance Returns and Solvency Regulations 1980.

revision of the Guidance Notes from time to time. Material changes in the Guidance will be published, generally through the issue of a revised version.

- 6 Guidance should be understood as reflecting the minimum standard that the Authority expects Approved Actuaries to observe at all times. For references in these Guidance Notes with respect to the changes in legislation contained in the Insurance Amendment Act 2004 Approved Actuaries must take immediate steps to ensure they are in compliance with the Act. In relation to other matters contained in the Guidance Notes, the Authority encourages Approved Actuaries to come into compliance as soon as possible and, in any event, not later than 31<sup>st</sup> December 2005 or a later date as may be agreed with the Authority in a particular case.

### **Application**

- 7 This guidance applies to all insurers registered as Long-term insurers under the Act, and to all Approved Actuaries approved by the Authority pursuant to the Act.

### **Definitions**

- 8 **Approved Actuary.** An Approved Actuary is a natural person approved by the Authority as qualified to provide an opinion as to the adequacy of an insurer's Total Long-term Business Reserves as reported in its statutory financial statements.
- 9 **Total Long-term Business Reserves.** The Total Long-term Business Reserves is the total of insurer's reserves on the statutory balance sheet for:
- Reserves for reported claims;
  - Reserves for unreported claims;
  - Policy reserves – life;
  - Policy reserves – accident and health;
  - Policyholders' funds on deposit;
  - Liability for future policyholders' dividends and Other Insurance reserves – long-term business;

less any applicable reinsurance recoverable less an allowance for doubtful accounts.

### **Appointment of Approved Actuary**

- 10 Insurers registered as Long-term insurers must appoint an actuary in accordance with the Act, and have this appointment approved by the Authority. (IA 26)
- 11 Each insurer required to appoint an actuary must apply in writing to the Authority for approval of their candidate for Approved Actuary. The Authority will confirm in writing its decision concerning the approval or otherwise of the insurer's candidate for Approved Actuary.

- 12 If any of the information included in the application for the Approved Actuary changes, the insurer shall provide written notice to the Authority of the changes within 14 days of the date of becoming aware of such changes (IA 8(3)).

### **Change in Approved Actuary**

- 13 Where there is a change in the Approved Actuary, the insurer shall provide written notice to the Authority of the change and the reasons for the change within 14 days of the decision to effect such change. (IA 8(3))
- 14 Where an Approved Actuary resigns before the expiration of his or her term of office or decides not to seek to be re-appointed, and where there are circumstances connected with his resignation which he or she considers should be brought to the attention of the Authority, the Approved Actuary shall within fourteen days give written notice (“resignation letter”) to the Authority of its decision and the reasons for the decision.
- 15 Where the Approved Actuary’s appointment is revoked by an insurer, and where there are circumstances connected with this revocation which the Approved Actuary considers should be brought to the attention of the Authority, the Approved Actuary shall provide the Authority with a written statement within fourteen days of the circumstances and reasons why, in the Approved Actuary’s opinion, the Approved Actuary’s appointment was revoked.

### **Disqualification**

- 16 The Authority may revoke approval of a person as an Approved Actuary, where the person:
- Is not fit and proper for the role;
  - Has failed to perform adequately and properly the functions and duties of such appointment; or,
  - No longer meets the fit and proper criteria for such an appointment.

### **Letter of Undertaking**

- 17 Any new candidate for Approved Actuary shall provide the Authority with a letter of undertaking that he or she will perform their functions in accordance with the Act and the standards of his or her relevant association.

## **Approved Actuary's Opinion**

- 18 An insurer registered as a long-term insurer must include with its annual statutory return, an opinion from its Approved Actuary opining on the adequacy of the insurer's Total Long-term Business Reserves as reflected in the insurer's statutory financial statements and statutory financial returns. (IA 27(1))
- 19 In addition, to other conditions imposed by the Act, before an insurer, who carries on long-term business, can declare and pay a dividend to any person other than a policyholder or move assets out of the long-term segregated fund, the insurer must obtain an opinion from its Approved Actuary opining on the adequacy of the insurer's Total Long-term Business Reserves. (IA 24(5))
- 20 Where the Authority directs an insurer who carries on long-term business to complete a valuation of its long-term liabilities outstanding at the date specified in the direction, the insurer is also required to include an opinion from its Approved Actuary opining on the adequacy of the insurer's valuation. (IA 27(2))
- 21 Where an insurer intends to transfer long-term insurance (but not reinsurance) business to another insurer, at least one of which is licensed under the Act, the insurer must petition the Court to sanction a scheme of transfer. The Court shall not entertain such a petition unless the petition is accompanied by a report on the scheme prepared by an Approved Actuary (IA 25(3)). The Approved Actuary may or may not be the Approved Actuary for either insurer, and may be appointed specifically for the proposed scheme. The Approved Actuary's report should describe the long-term business being transferred and opine on the adequacy of the liabilities.

## **Line 27 – Valuation of Total Long-term Business Reserves**

- 22 Line 27, the Total Long-term Business Reserves in the statutory balance sheet (as at the date of the financial statement date or the reporting date for an approved actuary's certificate ("the reporting date")), is:
- the sum of:
- i) Line 20: Reserves for reported claims includes amounts provided by the insurer in respect of claims reported to the insurer not later than the reporting date;
  - ii) Line 21: Reserves for unreported claims includes amounts provided by the insurer for claims arising from incidents which have occurred but have not yet been reported to the insurer as at the reporting date;
  - iii) Line 22: Policy reserves – life includes actuarially computed amounts which are adequate to provide future guaranteed benefits as they become payable under the provisions of in-force life insurance (including life contract benefits such as disability waiver of premium, disability income benefits and additional accidental

death benefits), annuity, and supplemental contracts with life contingencies policies. This does not include reserves in respect of accident and health policies;

- iv) Line 23: Policy reserves – accident and health includes actuarially computed amounts which include an active life reserve (including unearned portion of current premium, additional reserves and rate credits) and a claims reserve.
- v) Line 24: Policyholders’ funds on deposit includes funds consisting of premiums paid in advance of the due date, valued at the amounts received by the insurer including any interest credits which are due on such funds.
- vi) Line 25: Liability for future policyholders’ dividends is the amount of dividends payable, as declared by the directors, on participating life policies which qualify for such dividends, valued at the amount declared; and,
- vii) Line 26: Other insurance reserves – long-term business included any other actuarially computed reserves required by the terms of life or accident and health contracts or as a result of special riders or options attaching to any such contract, which are not provided for in lines 22-25;

- Less:

As applicable, for each line described above any amounts recoverable under reinsurance contracts (“estimates for reinsurance recoverables”).

- 23 The estimates for reinsurance recoverable are to be reduced for any amounts the collection of which, in the opinion of the insurer, is doubtful. (IAR, Schedule III, Part II, item 21 & 22)
- 24 Actuarially computed amounts, as described above, are reserves computed in accordance with accepted actuarial practice.
- 25 The insurer is required to disclose in the notes to the statutory financial statements:
  - (a) The method of calculating the amounts under each of Lines 20 to 26; and,
  - (b) The method of calculation and the range of significant or material interest rates and mortality factors used in the calculation of Line 22: Policy reserves – life.

### **Accepted Actuarial Practice**

- 26 It is the responsibility of the Approved Actuary to be conversant with the requirements of the Act and its implications for the issuance of his or her opinion.
- 27 The Approved Actuary’s estimate of the Total Long-term Business Reserves and any other matters specified by the Authority, shall be prepared in accordance with accepted actuarial practice and all applicable standards of practice of his or her relevant

associations and the Act. Where any provisions of the Act differ from the standards of practice, then the Act shall prevail.

### **Working papers of the Approved Actuary**

- 28 The Approved Actuary shall retain all relevant reports, records and documents, in either electronic or paper form, and if requested by the Authority these should be made available for review in Bermuda by the Authority or its representative. Such information should be sufficient in and of themselves to enable the completion of an independent review of the opinion by another unrelated but qualified Approved Actuary.

### **Right to Information**

- 29 An insurer must make any reasonable arrangements that are necessary to enable the Approved Actuary to complete his or her assigned responsibilities. This includes promptly complying with any and all reasonable requests for information.

### **Communication of Opinion**

- 30 Where there is a requirement for the opinion of an Approved Actuary, the Approved Actuary shall provide an opinion as to the adequacy of the Total Long-term Business Reserves. The Approved Actuary shall further state the extent to which any instructions in the Act relating to the valuation or presentation of these Total Long-term Business Reserves had been complied with.
- 31 It is expected that each communication of the opinion will be clear and complete.
- 32 The following sets out minimum standards for the presentation, level of detail and nature of discussion to be included in the communication of the Approved Actuary opinion. The content of the report should be in eight sections, as described below:

#### **Part 1 - Identification**

This section should identify the name of the Approved Actuary and the professional qualifications under which the opinion is being rendered. In addition, the Approved Actuary shall confirm that he or she is a member in good standing of all relevant associations included in the application to the authority for his approval and that he or she still satisfies the fit and proper criteria, with due consideration of the nature, scale and complexity of the insurer's business. Where the Approved Actuary is a member of the American Academy of Actuaries, this should be noted.

#### **Part 2 - Scope**

This section should identify the insurer involved and the valuation date of the opinion, and provide details defining the subject business which is the subject of the opinion. This section should clearly identify the sections of the Insurance Act under

which the provision is being provided, the relevant lines of the statutory financial statement (or the portion thereof) for which the opinion is being given, and the date of the statutory financial statements which these lines form a part of.

### Paragraph 3 – Conditions and Limitations

In this section the Approved Actuary should provide details concerning all conditions and limitations specific to the insurer's business and circumstances. It is not necessary that the Approved Actuary state general broad statements about risks and uncertainties due to the application of accepted actuarial practice and standards.

### Paragraph 4 – Review and Verification of Data

In this section, the Approved Actuary should describe the source and nature of any data analyzed as well as the extent of his reliance on data or analyses prepared by others. The Approved Actuary may rely on data provided by the insurer except that the Approved Actuary must review the data for reasonableness and consistency. The extent of any reviews, or reliance on the data should be clearly stated. However, the Approved Actuary is required to state that he or she has reviewed or evaluated all data for reasonableness and consistency.

Where the Approved Actuary has relied on the verification of data based on work done by the Approved Auditor, this reliance should be mentioned.

As long-term business reserves are estimated using projections of future cash flow and interest income, the Approved Actuary is expected to review the assets of the company in selecting assumptions about future cash flow, and interest income.

### Paragraph 5 – Expression of Opinion

The opinion should be clearly stated without restriction unless the opinion is intended to be a qualified opinion. If the Approved Actuary issues a qualified opinion, the qualification should disclose the nature and reasons for the qualification.

The opinion paragraph should include a sentence which covers at least the points listed in the following illustration:

“In my opinion, the amounts of \$x carried in line 27 (described above) of the Company's statutory balance sheet:

- 1) meet the requirements of the insurance laws of Bermuda;
- 2) are computed in accordance with accepted actuarial reserving practice;

- 3) make an adequate provision for the total long-term business liabilities of the Company under the terms of its contracts and agreements.”; and
- 4) the rate or rates of interest, cash flows, and the rate or rates of mortality, accident, sickness, or other contingencies used in calculating amounts in line 27 are appropriate to the circumstances of the company, and the policies in force.”

Paragraph 4) requires the Approved Actuary, where appropriate, to review the assets of the company for the purpose of selecting appropriate assumptions. Furthermore, these assumptions should be appropriate to provide the opinion statement in paragraph 3).

#### Paragraph 6 - Relevant Comment

In this section the Approved Actuary should include comment on matters that create additional uncertainty in the Total Long-term Business Reserves, such as:

- where there has been a material change in the actuarial assumptions or methods employed. The Approved Actuary should describe the nature of the change and the impact of these changes on the uncertainty of the Approved Actuary’s valuation.
- where the information provided by the company is incomplete or inadequate to complete the evaluation in accordance with accepted reserving standards and professional standards. The Approved Actuary should state this and describe the impact on the uncertainty on the Approved Actuary’s evaluation.
- where the Approved Actuary has had to select a key assumption with limited analytical support. The Approved Actuary should state this and describe the impact that the alternative selection(s) would have on the uncertainty in the Approved Actuary’s evaluation.

#### Paragraph 7 – Work Papers

This section should include a statement describing all actuarial reports, analyses and work products that have been completed, and that these same documents should be made available in Bermuda upon request. Such documents should be sufficient in and of themselves to enable the completion of an independent review of the opinion by another unrelated but qualified Approved Actuary.

#### Paragraph 8 - Signature

This section should include the Approved Actuary’s signature the relevant professional designations, appointment status (i.e. officer designation, or consultant), the associated firm, and contact information including address, telephone number, fax number, and email.

End of guidance note.

***If you have questions on this or other guidance from the Insurance Department please email [info@bma.bm](mailto:info@bma.bm) . Please put "Insurance Guidance" in the title of your email.***