**TANZANIA INSURANCE REGULATORY AUTHORITY**

# GUIDELINE TO THE INSURANCE INDUSTRY ON THE ACTUARIAL FUNCTION

**January 2019**

## VISION

**“A world-class insurance regulator”**

## MISSION STATEMENT

**“To develop, promote and maintain an inclusive, efficient, fair, safe and stable insurance market for the benefit and protection of policyholders”**

To:

**InsuranceCompanies**
**Reinsurance Companies**

## GUIDELINE ON ACTUARIAL FUNCTION FOR INSURANCE AND REINSURANCE COMPANIES

This guideline on the Actuarial function of insurance companies is issued pursuant to section 6 (2) (e) and section 11(b) of the Insurance Act No. 10 of 2009 for observance by Insurance and Reinsurance companies.

The guideline aims to ensure that insurance and reinsurance companies have a robust actuarial function that is well positioned, properly authorized and staffed.

The guideline further aims to ensure that insurer's technical functions, including product pricing and reserving of technical provisions are carried out in a prudent and transparent manner.

To this end, the Tanzania Insurance Regulatory Authority issues this guideline on Actuarial Function effective from 1st November, 2018.

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**COMMISSIONER OF INSURANCE**

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## 1. AUTHORIZATION

IN EXERCISE of the powers conferred by section 6 (2) (e) and section 11(b) of the Insurance Act No. 10 of 2009, the Tanzania Insurance Regulatory Authority (herein referred to as Authority) issues the guideline set out here below, for observance by all insurers registered under the Insurance Act Cap 394, in respect of actuarial function.

## 2. INTRODUCTION

i. The Authority requires all insurers to have a robust actuarial function that is well positioned, resourced and properly authorized and staffed.
ii. The Head of the Actuarial Function is required to be "fit and proper" and hence approved by the Authority.
iii. The actuarial staff to be engaged by each insurer are hereby referred to as the Actuarial Function. This includes the head of the actuarial function.

## 3. OBJECTIVE

The objective of this guideline 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.

## 4. GENERAL PRINCIPLES

i. The insurer shall be required to set up a robust actuarial function that is well positioned, resourced and properly authorized (by the Authority) and staffed for proper operation.

ii. The insurer shall be required to engage an appointed actuary who is registered/accredited by the Authority.

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

## 5. THE ACTUARIAL FUNCTION

a) The insurer shall apply for the approval of the Head of Actuarial Function to the Authority. The Authority will apply a “fit and proper” test to such appointment, and shall either approve or deny the approval.

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

   i. Any circumstance 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.

c) 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 insurer’s 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 modelling and use of internal models, where applicable.

d) 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.

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

## 6. THE APPOINTED ACTUARY

i. The Appointed Actuary shall have the qualification of a Fellow of The Actuarial Society of Tanzania, or equivalent.

ii. Each Appointed Actuary shall apply for approval to the Authority to act as Appointed Actuary for the insurer. 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.

iii. The Appointed Actuary shall not hold positions within or outside of the insurer that may create conflicts of interest or compromise his or her independence. The Board of the insurer 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 insurer. If any such conflicts exist, the Board shall subject them to appropriate controls or order other arrangements.

iv. If an Appointed Actuary resigns or is replaced, the insurer shall notify the Authority and give the reasons for the resignation or replacement. Such a notification shall include a statement from the insurer 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.

v. The Authority may require an insurer 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.

## 7. SPECIFIC REQUIREMENTS

i. The Appointed Actuary of an insurer shall produce a Financial Condition Report (FCR) for each financial year.

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

### a) *Statement by the Appointed Actuary*

- The Appointed Actuary must sign and state the date of completion of FCR.
- A statement must be provided that the Actuary's reporting has been prepared in accordance with this guideline and generally accepted actuarial principles.

### b) *Information requirements*

- The Appointed Actuary must advise the insurer 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.

- 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 insurer against the insurer's financial and other records. Material discrepancies that cannot be resolved with the insurer must be outlined in the FCR, together with the consequent limitations of the FCR.

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

- 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.

- Where the insurer 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.

- 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.

**c) Business overview**

- An FCR must include general background information about the corporate structure and operations of the insurer.

- General background information includes relevant information about the insurer’s plans, including forward projections, and about any regulatory requirements imposed on the insurer by the Authority, in writing, that do not form part of the Insurance Act or regulations, any guidelines, circulars and conditions to the insurance industry.

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

### *d) Recent experience and profitability*

- An FCR must identify and comment on the past profitability of the insurer, including consideration of significant features or trends in the insurer'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.

- Deviations of actual experience from the expected experience in the insurer'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.

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

### *e) Insurance Liability Valuation*

- An FCR must include a summary of the key results of, and considerations arising from, the Insurance Liability Valuation prepared at the Effective Date, prepared in accordance with the Insurance Act and its regulations in respect to Life Insurers. The FCR must make reference to the Insurance Liability Valuation report, which can either be a separate report or included in the FCR.

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

### f) *Adequacy of past estimates of insurance liabilities*

- 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.

- 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.

### g) *Pricing and premium adequacy*

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

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

### h) *Asset and liability management*

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

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

  i. Insurer's liability profile and liquidity needs;
  ii. Insurer's investment assets, in particular its investment strategy and the nature, quantum and performance of those assets;

iii. Insurer's other assets, in particular reinsurance and non- reinsurance recoveries;

iv. Insurer's insurance liabilities and non-insurance liabilities

v. Insurer's net assets; and

vi. Methods for valuing assets and non-insurance liabilities, particularly, changes in those methods.

### *i) Capital management and capital adequacy*

- An FCR must outline the insurer'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.

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

- An FCR must include the insurer's MCR calculated in accordance with guideline on solvency and capital requirements.

- An FCR must outline, consider and comment on trends in the insurer'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 insurer's MCR or of its capital targets during the past year, and the actions that were taken by the insurer to rectify such breaches.

- The Actuary must consider and comment on the insurer’s capacity to meet its MCR and its capital targets over at least the next three years.

j) ***Reinsurance arrangements***

- An FCR must comment on material issues arising from the use of the insurer’s specified reinsurance strategy, and from its actual current and past reinsurance arrangements, having regard to the insurer’s liability profile. Reference must be made to the insurer’s Reinsurance Management Strategy (RMS) and to the Reinsurance Arrangements Statements submitted to the Authority.

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

- An FCR must assess the method used to calculate the insurer’s Maximum Event Retention (MER) and comment on whether the method is appropriate to the operations of the insurer.

- The Appointed Actuary must outline, consider and comment on material risks arising from the insurer’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 insurer’s ability to make reinsurance recoveries under these arrangements.

- 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).

### *k) Risk management*

- The insurer's risk management framework, comprising the insurer's risk management policies and procedures, processes and controls, is intended to identify the risks that may affect the financial condition of the insurer. The Appointed Actuary must comment on material risks arising from the risk management framework of the insurer. Where there are limitations on such commentary, particularly those caused by the Appointed Actuary's limited exposure to, and interaction with, the insurer'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.

- An FCR must make reference to the insurer's Risk Management Strategy (RMS) that has been submitted to Authority in accordance with Guideline on Risk Management. The RMS is intended to identify the elements of the insurer'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 insurer's risk management framework. Where there are limitations on such commentary, particularly those caused by the Appointed Actuary's limited exposure to and interaction with the insurer'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.

### *l) Conclusions and recommendations*

- The assessment of the financial condition of the insurer must include a discussion of the implications of material risks and issues identified during the assessment of the financial condition of the insurer.

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

- The Appointed Actuary must also comment on the extent to which the insurer has addressed recommendations provided in the previous FCR.

## 8. REPORTING REQUIREMENTS

i. The actuarial function shall report to the Board:

   a) Any matter that may have an adverse material impact on the insurer's solvency or financial condition;
   b) Any circumstance that may have a material effect on the insurer from an actuarial perspective;
   c) The adequacy of the technical provisions and other liabilities;
   d) The adequacy of reinsurance cover;
   e) If the insurer is in contravention of, or the actuarial function considers that the insurer is likely to contravene, any provisions of the Act, the Regulations or the Code concerning the matters specified in subparagraph (8.1.1) or (8.1.2) or any requirements concerning stated capital, solvency or financial condition;

ii. The Appointed Actuary of an insurer shall submit a Financial Condition Report to the Board, within three months of the end of each financial year.

iii. The Actuarial Function of an insurer shall submit a Quarterly Solvency Statement determined in accordance with the Solvency Guideline and generally accepted actuarial principles to the Board.

iv. The insurer shall submit a Financial Condition Report to the Authority, within four months of the end of each financial year.

v. The insurer shall submit Quarterly Solvency Statement determined in accordance with the Solvency Guideline and generally accepted actuarial principles at the end of each quarter to the Authority.

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

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

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

ix. 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 insurer 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.

## 9. ENFORCEMENT

### i. Remedial Measures

When the Authority determines non-compliance with the provisions of this guideline, it may take any intervention measures or steps prescribed in the Insurance Act.

### ii. Administrative Sanctions

Where the Authority determines that an Appointed Actuary has not met the requirements of this directive, the Authority may impose any or all of the administrative sanctions to correct the situation in accordance with the provisions of the Insurance Act, including but not limited to:

- Prohibition from declaring and/or paying dividends;

- Requesting an enforceable undertaking that a person is barred, for a period of time not exceeding ten years, from holding the office of Appointed Actuary, actuary within a control function or manager of an insurance company;

- Declaration that a person may not hold the office of Appointed Actuary; and

- Monetary penalties.

## 10. EFFECTIVE DATE

**The effective date of this Guideline is 1st January 2019**