

**NON-BANK FINANCIAL
INSTITUTIONS REGULATORY
AUTHORITY
(NBFIRA)**

INSURANCE PRUDENTIAL RULES

GR 3

**Approved Person's Annual Report
General Insurance**

July 2011

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NBFIRA

1. Introduction

1.1. Purpose of This Guidance

1. The purpose of this disclosure guidance note is to provide the Approved Person with guidance when preparing the valuation report on the liabilities of a general insurance company. This is required when the insurer applies to the NBFIRA for permission to hold insurance liabilities on a basis other than the Prescribed Valuation Basis set out in the Insurance Prudential Rules.

1.2. Duties of the Approved Persons

2. If the Approved Person has relied upon the knowledge of another suitably qualified professional then this must be made clear in the report.
3. If more than one Approved Person signs the report, then unless the respective responsibilities are clearly stated, responsibility for the contents of the report is joint and several.
4. The Approved Person must take all relevant facts into account and consider them in the light of the unique and specific circumstances applying to the insurer at the time he/she compiles the report. This guidance note cannot cover all possibilities and should therefore be interpreted and followed in the spirit of the guidance given where a particular circumstance is not covered specifically.
5. The report does not require the disclosure of items that are not material. Materiality guidelines must be the same as for other items in the financial statements, as decided by management and approved by the auditors.
6. In all areas of the report, the Approved Person needs to ensure that there is sufficient explanation supported by appropriate, disclosed financial analyses to ensure that his/her thoughts are clearly conveyed and understood by the NBFIRA. The use of appendices is recommended for detailed financial analysis. The Approved Person should not make any statements that cannot be supported by relevant documentation. The report may make references to other internal management documents.
7. In the event that the Approved Person materially disagrees with the content of the annual financial statements, or has experienced pressure from the Board or management to change the valuation basis, or the manner in which the financial results are presented, and is uncertain as to his/her correct course of conduct, he/she should contact the NBFIRA.
8. If, in the Approved Person's opinion, the financial results presented in the annual financial statements and/or statutory return are materially inconsistent with his/her report, the Approved Person is required to report this inconsistency to the NBFIRA of general insurance.

2. The Approved Person's Report

2.1. Scope of the Report

9. The report must state the following:
- a) who has commissioned the report and, if different, the addressee(s) of the report;
 - b) the name and qualifications of the Approved Person taking responsibility for the report;
 - c) the capacity in which the Approved Person is acting;
 - d) the effective date of the report and the data used;
 - e) the purpose of the report or the terms of reference given;
 - f) the scope of the report;
 - g) the extent, if any, to which the report falls short of, or goes beyond, its stated scope or purpose;
 - h) that the report has been prepared in accordance with this guidance note;
 - i) any restrictions on the work carried out by the Approved Person;
 - j) any reliances and limitations;
 - k) adherence to relevant legislation and regulations including this guidance;
 - l) any qualifications contained within the report;
 - m) discussion on reasons why the adopted allowance for diversification, correlation and reinsurance is appropriate;
 - n) conclusion and recommendation; and
 - o) any other descriptions or explanations considered necessary to enable a reader to gain a meaningful appreciation of the figures presented.

10. The report should contain or make reference to and address the issues arising out of:
 - a) the nature, accuracy and interpretation of the data;
 - b) comparisons of actual experience with that expected under the assumptions in the last similar report, if available;
 - c) the actuarial models, methodology and key assumptions;
 - d) any changes in the method and key assumptions since the last similar report produced by the same Approved Person;
 - e) results;
 - f) uncertainty of the results;
 - g) the effect of any known actual or planned business developments and management actions on the conclusions of the report; and
 - h) the fact that third parties reading the report may not have the background information necessary for a full understanding of the report.
11. If the report does not address each of the points above then the report should justify why the point has not been addressed.
12. The report should contain detail sufficient for another suitably experienced Approved Person to form an opinion of the original Approved Person's key judgements, and to assess the reasonableness of the results.
13. The report should contain sufficient detail regarding the data and methodology that an informed reader is capable of checking the reasonableness of the results presented in it.
14. An assumption must be considered key if it has a material impact on the results of the investigation.

2.2. Information and Data used in Preparing the Report

15. The report must indicate the sources of the data that the Approved Person has used and the extent to which he or she takes responsibility for data accuracy or completeness. The Approved Person may need to rely on or use the work of other people. If there is a risk of confusion as to the division of responsibilities between the Approved Person and other persons or organisations, the respective responsibilities must be made clear in the report.
16. The Approved Person must draw attention to any material limitations in the available data including the effect on the appropriateness of the data of changes in the way the business analysed has been conducted. Specifically, the Approved Person must make reference to limitations in the data that have materially added to the uncertainty surrounding the results of the work carried out.
17. The report must describe the criteria used for subdividing data into groups.
18. Where the Approved Person makes adjustments to the data the nature, amount, and rationale for the adjustments must be clearly stated.
19. If the Approved Person is unable to reconcile major differences between the valuation data and the accounting data, or major differences in the build-up of the valuation data, the problem shall be discussed with the company and with the auditor. If the differences cannot be reconciled and are material, it will be necessary to disclose this fact and to give an opinion of the extent and effect of the discrepancy, and to state what allowance has been made in the valuation for the discrepancy.

2.3. Analysis of Emerging Experience

20. Where practicable, the report should include an analysis of emerging experience.
21. If the Approved Person is aware of material changes in approach or key assumptions from the previous report, then regardless of who was responsible for the previous report, the Approved Person should describe the changes and the impact on the results.
22. The Approved Person should comment on new data that has emerged in the context of previous actuarial models and assumptions.
23. The Approved Person should explain the influence of new data on the results.
24. The Approved Person should comment upon external issues that may change the credibility of the data.

2.4. Methodology and Assumptions

25. The report must include a section providing a summary of the methods used and explaining to which elements of the data a method has been applied.
26. Where unusual or non-standard methods have been used, or where one or more of the recipients of the report is unlikely to be familiar with the methods used, then a more detailed description of the methods should be given.
27. The report must specify and discuss the key assumptions and judgements.
28. If the report includes illustrations based on assumptions that the Approved Person does not regard as appropriate, this must be made clear in the report.
29. The Approved Person must explain the rationale for selecting the methods used in producing results and for each method provide a statement of key assumptions.
30. Where the results of different methods or assumptions presented in the report differ significantly, the Approved Person must comment on the likely reasons for the differences and explain the basis for the choice of results.
31. It is not necessary to disclose every assumption made, but there should be sufficient data and other information to understand the key assumptions made and the process by which the Approved Person has identified them.

2.5. Results

32. The report must provide clear interpretations of any point estimates shown.
33. The Approved Person must state whether the amounts he or she recommends or opines as suitable for inclusion as technical provisions in financial statements or returns to supervisory authorities are in accordance with the governing accounting principles or legislation.
34. Detailed quantification is normally provided at the valuation unit level. There should, however, be an overall quantification of the impact of changes to the valuation model and assumptions at the whole insurer level.

2.6. Uncertainty

35. The report should indicate the nature, degree and sources of uncertainty surrounding the results and sensitivities to key assumptions. Uncertainty should be quantified where practicable, but otherwise may be reported using a descriptive summary.
36. If there are specific features of the business presenting concerns or significantly increasing the uncertainty of the results, beyond that which an informed reader of the report would reasonably expect, then this fact must be clearly highlighted in the corresponding reservations or limitation of scope, included in the report.
37. If there is a substantial probability of material adverse deviation from modelled results, the Approved Person should draw attention to this in the report.