

LEGAL NOTICE NO. 37

THE INSURANCE ACT

(Cap. 487)

IN EXERCISE of the powers conferred by section 3A (1) (a), (b) and (g) of the Insurance Act, the Insurance Regulatory Authority issues the following guidelines—

THE INSURANCE (VALUATION OF TECHNICAL PROVISIONS FOR GENERAL INSURANCE BUSINESS) GUIDELINES, 2017

1. These guidelines may be cited as the Insurance (Valuation of Technical Provisions for General Insurance Business) Guidelines, 2017.

Citation.

2. In these guidelines, unless the context otherwise requires—

Interpretation.

“appointed actuary” means an actuary who is independent of the insurer or the related parties of the insurer and is approved by the Authority with the qualifications of an actuary as set out in section 2(1) of the Act;

“best estimate” means a value that reflects anticipated experience with no provision for risk of adverse deviation; and

“risk margin” means an amount included in a prudent estimate assumption that is intended to provide for estimation error and adverse deviation related to a corresponding anticipated experience assumption.

3. (1) An appointed actuary shall prepare a statement on the valuation of the insurer’s insurance liabilities.

Key requirements.

(2) For the purposes of these guidelines, an insurer’s insurance liabilities shall include—

- (a) the insurer’s outstanding claims liabilities; and
- (b) the insurer’s premium liabilities.

(3) An insurer shall determine the appropriate valuation of insurance liabilities.

(4) Where an insurer rejects the appointed actuary’s statement or adopts a valuation of insurance liabilities that is not in accordance with these guidelines, the insurer shall disclose in writing the following to the Authority prior to the finalisation of the insurer’s financial statements—

- (a) the reasons for not accepting the appointed actuary’s statements or for not determining the insurance liabilities in a manner that is consistent with these guidelines; and
- (b) the details of the alternative assumptions and methodologies used in determining the value of the insurance liabilities.

(5) For the purposes of this paragraph—

- (a) “outstanding claims liabilities” means claims incurred prior to the calculation date which have been reported but have not yet been settled or which have been incurred but have not yet been reported; and
- (b) “premium liabilities” means the cost of running off the unexpired portion of an insurer’s policies composed of unearned premium reserve and unexpired risk reserve.

4. (1) An insurer shall determine and disclose the value of its unearned premiums reserves for each class of business.

Valuation of
premium reserves.

(2) An insurer shall, in determining the value of unearned premium reserves, apply the following methods—

- (a) “24ths” method (reserving on a monthly basis);
- (b) “365ths” method (reserving on a daily basis); and
- (c) any other method as may be approved by the Authority.

(3) When determining unearned premium reserves, an insurer shall conduct a test of the adequacy of the reserves.

(4) Where the unearned premium reserves are inadequate, the insurer shall determine the premium deficiency reserves.

(5) The reserving method used by the insurer to determine the unearned premium reserves shall not be changed arbitrarily by the insurer.

(6) A reinsurer may apply the “8ths” method when reserving on a quarterly basis.

(7) The insurer shall calculate the reserve for the insurer’s unexpired risks by estimating the claims expected to be incurred by the insurer after the valuation date on policies with unexpired exposure periods as at the valuation date, including the part of claims management expenses that relates to those claims in such an amount that the estimated value of those future claims exceeds the unearned premiums reserve.

(8) The reserve for unexpired risks shall be calculated and maintained separately for each class of insurance.

5. (1) The reserves in respect of outstanding claims incurred and reported by the insurer shall be determined prudently by using case estimate method, average cost per claim method or any other methods recognised by the Authority.

Valuation of claim
reserves.

(2) The insurer’s reserves in respect of incurred but not reported claims shall be valued and determined prudently by using at least two of the following methods in accordance with the risk nature, risk distribution and experiential data of the insurance lines—

- (a) the chain-ladder method;
- (b) the average cost per claim method;

- (c) the Bornhuetter-Ferguson method;
- (d) Cape Cod method;
- (e) Stochastic Reserving methods;
- (f) the standard development method; or
- (g) any other method that may be approved by the Authority.

(3) An insurer that has been in existence for not more than three years may use the standard development method.

(4) The percentage of the insurer's net premiums during the year shall be applied when using the standard development method as provided in the appendix to these guidelines.

(5) The methods to be adopted by the insurer for the valuation of the claim reserves shall depend on—

- (a) the particular characteristics of the class of business;
- (b) the reliability of the available data;
- (c) the past experience of the insurer and the industry;
- (d) the robustness of the valuation models; and
- (e) consideration of materiality.

(6) The value of the insurer's claim reserves shall include an amount in respect of the anticipated claim adjustment expenses.

(7) When determining claim reserves, the insurer shall conduct a test on the adequacy of the reserves.

(8) Where the insurer's claims reserves are determined to be inadequate after conducting a test of adequacy of the reserves, the insurer shall determine the claims deficiency reserves margin and load the margin to the reserve.

(9) An insurer shall determine and disclose the value of its claims reserves for each class of business.

6. (1) The appointed actuary shall be in charge of determination of the insurer's reserves.

Reporting on reserves.

(2) An insurer shall annually submit to the Authority reserves valuation report signed by the appointed actuary of the insurer.

(3) The annual reserves valuation report shall contain the following—

- (a) a statement that the applied method complies with these guidelines;
- (b) an actuarial opinion on the reserving;
- (c) a detailed description of the reserves valuation; and
- (d) an explanation of special terms and concepts used in the report.

(3) The description of the annual reserves valuation shall contain the following—

- (a) the criteria used by the appointed actuary for division of insurance lines or categories and names of the insurance lines or categories;
- (b) the completeness and accuracy of the data of different insurance lines or categories and a description of the problems these data may have;
- (c) the actuarial method and model of valuation; if the actuarial method and model differ from those previously adopted, the reasons for making the change and the effects of the change on the reserves;
- (d) any major assumptions of the actuarial method and model of valuation and the reasons for adopting such assumptions;
- (e) any discrepancy between the actuarial result and the previous reserving and actuarial experience;
- (f) the adequacy of reserving;
- (g) in the case of the insurer's unearned premium reserves, a description of any changes concerning periodicity, basic premium rate, risk adjustment coefficient, loss ratio, expense ratio, surrender ratio and other factors of insurance lines; and
- (h) in the case of the insurer's outstanding claims reserves, a description of any changes concerning the occurring rules of compensation cases, case closing rules, changing rules of average cost per claim, underwriting practices, claim settlement practices, ceding arrangements, additional cost increment and other factors.

(4) The insurer shall submit to the Authority the insurer's quarterly reserve valuation reports signed by the head of the actuarial function and the principal officer of the insurer.

(5) The insurer's quarterly reserve valuation report shall contain the following—

- (a) a statement that the applied method complies with these guidelines;
- (b) the reserve value per line of business; and
- (c) any other information that may influence the value of the reserves.

7. (1) Where the Authority determines that an insurer has not met the requirements of these guidelines, the Authority may impose any or all the remedial measures to correct the situation in accordance with the provisions of the Act.

Remedial measures.

(2) An insurer shall, within thirty days, inform the Authority if the insurer has breached or is likely to breach the prescribed capital requirements.

(3) A notice by an insurer of the breach or potential breach of these guidelines shall state the remedial action taken or planned to be taken and the period when action shall be taken.

(4) The level of supervisory intervention by the Authority to address a breach or potential breach of these guidelines shall be determined by the extent of the breach or potential breach.

8. Where the Authority determines that an insurer has not met the requirements of its directive, the Authority may impose any or all of the administrative sanctions under the Act to correct the situation, including—

Administrative
sanctions.

- (a) prohibiting the insurer from declaring or paying dividends;
- (b) suspending, dismissing, disqualifying or revoking the appointment by the insurer of an individual in a position as a board member, member of the senior management or a key person in a control function;
- (c) imposing additional reporting requirements on the insurer;
- (d) declaring that a person may not take the office of appointed actuary or the head of the actuarial function of the insurer;
- (e) withdrawing or imposing conditions on the insurer's business license; and
- (f) taking any other action as may be necessary.

APPENDIX

Standard development method factors

No.	Class of insurance business	Percentage of net premium written
1.	Aviation	2%
2.	Engineering	5%
3.	Fire domestic	1%
4.	Fire industrial	1%
5.	Liability	5% - current year 3% - one year preceding the current year 1% - two years preceding the current year
6.	Marine	2½%
7.	Motor private	5%
8.	Motor commercial	5% - current year 3% one year preceding the current year 1% - two years preceding the current year
9.	Motor commercial (PSV)	20% - current year 12 ½% - one year preceding the current year 5% two years preceding the current year
10.	Personal accident insurance	5%
11.	Theft	5%

12.	Workmen's compensation	5% - current year 3% - one year preceding the current year 1% - two years preceding the current year
13.	Medical	3%
14.	Micro insurance	4%
15.	Miscellaneous	5%

Dated the 9th February, 2017.

GODFREY K. KIPTUM,
*Acting Commissioner of Insurance
and Chief Executive Officer.
Insurance Regulatory Authority.*

ABDIRAHIN H. ABDI,
*Chairman,
Insurance Regulatory Authority.*

LEGAL NOTICE No. 38

THE INSURANCE ACT

(Cap. 487)

IN EXERCISE of the powers conferred by section 3A (1) (a), (b) and (g) of the Insurance Act, the Insurance Regulatory Authority issues the following guidelines—

THE INSURANCE (VALUATION OF TECHNICAL PROVISIONS FOR LIFE INSURANCE BUSINESS) GUIDELINES, 2017

1. These guidelines may be cited as the Insurance (Valuation of Technical Provisions for Life Insurance Business) Guidelines, 2017.

Citation.

2. In these guidelines, unless the context otherwise requires—

Interpretation.

“appointed actuary” means an actuary who is independent to insurer or the related parties of the insurer and approved by the Authority with the qualifications of an actuary as set out in section 2(1) of the Act;

“best estimate” means a value that reflects anticipated experience with no provision for risk of adverse deviation;

“hedge” means actions taken to offset the impact of risks materialising;

“risk margin” means an amount included in a prudent estimate assumption that is intended to provide for estimation error and adverse deviation related to a corresponding anticipated experience assumption.

3. (1) An insurer shall submit an actuarial valuation report of its life insurance business at least once in every three months and at the end of the financial year.

Key requirements.

(2) An appointed actuary shall be responsible for preparing the annual valuation of technical provisions.