

Guidelines on the Actuarial Report for Non-Life Insurance

Version of November 2006
Approved by the SAA Board on 1 December 2006

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1. Purpose

The Guidelines on the Actuarial Report for Non-Life Insurance are intended to aid the accountable actuary in producing the report. No detailed rules are given; rather, principles are set out upon which the recommended practice for actuaries should be based.

2. Legal basis

The legal basis for the tasks of the accountable actuary and in particular the specifications for the actuarial report are laid out in the Insurance Supervision Law (VAG), in the Insurance Supervision Ordinance (AVO) and in the Insurance Supervision Ordinance of the Federal Office of Private Insurance (AVO-BPV):

Art 23 VAG governs functions and appointments
Art 24 VAG governs tasks

Art 21 AVO defines financial security
Art 99 AVO gives precise details of specialist qualifications

Art 2 AVO-BPV gives precise details of the tasks
Art 3 AVO-BPV gives precise details about the content of the report
Art 4 AVO-BPV requires clarification of the reasons for termination of the employment relationship

The Federal Office of Private Insurance Directive of 1 March 2006 defines the requirements to be fulfilled by the accountable actuary.

Art 2 para 2 and Art 3 of the AVO-BPV are of central importance for the report:

Art 2
²He or she shall draw up and submit a detailed report to executive management. The responsible units in the company shall provide said actuary with all the requisite information.

Art 3
¹The report shall show the current status and possible developments in the company from the actuarial point of view, specifically in terms of technical developments that jeopardise the company's financial situation.

²The report shall contain all the requisite information called for in Art 24 para 1 items a-c of the VAG. Furthermore, it shall provide information about the technical results of the products.

³In addition to specific, material findings of fact, the report shall identify:
a. *the basis, parameters and models used; and*
b. *details of the sensitivity of the results to changes in the parameters.*

3. Report

3.1 General

The duties of the accountable actuary and in particular the specifications for the actuarial report relate to insurance companies that are subject to the licensing obligation as detailed in Art 3 para 1 VAG, and to health insurers that provide supplementary health insurance.

Each year the accountable actuary produces a report on the company's current status and future prospects from the actuarial perspective for submission to the company management. When drawing up this report, the actuary's primary task is to fulfil the responsibilities described in Art 24 VAG and to identify underwriting developments that could potentially jeopardise the company's financial situation.

He/she must recommend possible measures that the company can take to avoid or counteract unfavourable developments. In addition, the actuary should also list measures already taken.

Where the report makes reference to statements made by specialists or responsible persons from other specialist areas, the accountable actuary gathers expert information from these persons, takes their assessments into account and documents them in the report. In this context, Art 3 of the SAA code of conduct applies, which states in essence that the accountable actuary must restrict himself/herself to those areas where he or she is sufficiently competent and has the necessary experience.

Based on the description of financial security in Art 21 AVO: "Financial security is measured in terms of solvency and technical provisions", the actuarial report covers the following main points:

- solvency and tied assets
- technical provisions
- underwriting results
- reinsurance
- accounting principles and data

3.2 Solvency and tied assets

The accountable actuary will confirm that the statutory solvency margin has been correctly calculated and that the reported tied assets (pursuant to VAG) comply with the legal requirements.

If the insurance business to which the actuarial report relates is subject to the Swiss Solvency Test (SST, Solvency II), he/she will also comment on the market-oriented target capital and the risk-bearing capital. If the business assessed by the actuarial report is not subject to the Swiss Solvency Test (eg KVG companies providing supplementary health insurance, branch offices, captives), the actuary will evaluate the risk situation of this business as appropriate, using suitable bases.

He/she will comment on the extent to which the company meets the various solvency requirements and on the risk situation deriving from the company's current financial

circumstances. If possible, the underwriting risk, market risk, credit risk and any other significant risk drivers should be addressed separately in addition to the overall risk. The actuary will appraise the corresponding time series and discuss the ensuing development scenarios for the solvency of the company from an actuarial perspective.

3.3 Technical Provisions

The main focus of the section in the actuarial report relating to technical provisions is a comprehensive and comparative overview of the best estimate reserves and the reserves reported in the published financial statements. A distinction is to be made between direct business, reinsurance cessions and business remaining within the company's retention.

The best estimate reserves basically represent an unbiased estimate of the amount of incurred future obligations. They are best estimates and thus are neither excessively cautious nor overly optimistic and, in particular, do not include any deliberate reinforcements. In this context, reference is also made to the guidelines for setting up loss reserves in non-life insurance.

Depending on the accounting principles adopted by the company, however, the corresponding balance sheet items may include additional reinforcements. It is the task of the actuarial report to evaluate and comment on the relationship between the reserves reported in the published financial statements and the obligations accepted.

The technical provisions comprise in particular:

- loss reserves
- reserves for loss adjustment expenses
- unearned premium reserves
- reserves for profit sharing
- policy reserves for current annuities
- ageing reserves in individual health insurance

3.4 Underwriting results

In the report, the accountable actuary will evaluate the underwriting results in general, and in particular will indicate lines of business where inadequate returns could affect or even pose a future danger to solvency. If necessary, he/she will recommend appropriate measures.

The prerequisites for an adequate analysis of underwriting results are reliable statistics and the key underwriting figures that are based on them. At a minimum, the latter should give a clear picture of:

- earned premiums
- claims incurred in the current year
- run-off result from previous years
- administration expenses

before and after reinsurance.

3.5 Reinsurance

The accountable actuary's report will provide information as to the company's reinsurance policy and include an overview of its current reinsurance programme: (the most important reinsurance treaties, reinsurance limits, accumulation risks covered, etc).

The report will note all non-reinsured major insurance risks retained by the company that could have a long-term negative effect on the company's financial strength and solvency should a loss event materialise.

3.6 Calculation basis and data

In addition to specific, material issues, the report should also contain statements regarding the basis, parameters, model and data used.