Schweizerische Aktuarvereinigung
Association Suisse des Actuaires
Associazione Svizzera degli Attuari

Guidelines on the Actuarial Report for Life Insurance

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1. Introduction

The appointed actuary will produce annually, for submission to the company management, a report on the company's current status and possible developments from the actuarial perspective.

The report is to cover the insurance company's entire business. Where the report deals with the specialist areas of other responsible persons, the appointed actuary is to gather expert information from those persons and integrate their analyses into the report.

It is assumed that the financial requirements of a secured business are made up of the following two components:

- realistic allocations to reserves, based on expected future trends and taking account of all the company's existing liabilities, and

- additional risk capital, based on the company's business risks, the current business plan and the asset allocation applying.

2. Legal basis

The legal bases for the actuarial report are derived from the Articles on the tasks of the appointed actuary in the Insurance Supervision Act (VAG), the Insurance Supervision Ordinance (AVO) and the Insurance Supervision Ordinance of the Federal Office of Private Insurance (AVO- BPV):

Art. 23 VAG governs functions and appointment, Art. 24 VAG governs tasks,
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 on termination of the employment relationship.

3. Evaluation of obligations accepted

In the report, the actuary gives his/her opinion on the obligations arising out of insurance contracts. This opinion requires distinctions to be made based on the type of obligations accepted and the actuarial assumptions applied.

The report should assess the underwriting results of the lines of business, thereby allowing statements to be made about:

- o profitability and sources of profits (costs, risk, interest)
- o claims experience
- o cost trends
- o technical provisions, in particular principles for valuation
- o portfolio development
- o profit sharing
- o risk capital required for ALM risks, underwriting risks and other risks
- o acceptability of long-term rate guarantees
- o taking account of embedded options in the contract structure
- o developments constituting a threat to solvency and measures taken to control them

Evaluating the obligations accepted also involves making statements about pricing policy and underwriting policy. In particular, attention must be drawn to sub-portfolios with different risk assessments.

4. Evaluation of reserves

The report highlights the essential points of the reserving policy for the various obligations accepted and contains a detailed presentation of the reserves from a statutory and economic point of view.

In particular, it provides clarity about the debit amount of the tied assets, about the strengthening of reserves additionally carried out, and about the reserves over and above those that are considered operationally necessary.

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Reserves are considered to be operationally necessary, taking account of the current economic and demographic parameters and including the promised profit sharing.

5. Evaluation of solvency

The solvency requirements are governed by the VAG and the AVO. Here, a distinction is made between the minimum solvency (statutory) on the one hand and, on the other, the target capital and the risk-bearing capital (market-oriented).

In his/her report, the appointed actuary will comment on the company's results from the Swiss Solvency Test and on the extent to which the solvency requirements are met, from both the current perspective as well as regarding future developments.

6. Other points in the report

- Pricing policy for new products and underwriting policy
- Profit-sharing policy: Principles for bonus plans, liabilities and freedom of action, development of the surplus fund
- Assessment of the margins in the actuarial assumptions
- Reinsurance arrangements made. These also include existing financial reinsurances and assessment of the effects of any financing treaties.

7. Assumptions and stress tests

The assumptions made with regard to economic and demographic parameters and the methods used must be clearly recorded. Any changes in hypotheses and methods compared to earlier reports must be explained and their effects on the results indicated.

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Suitable methods must be used to check the extent to which developments differing from the assumptions made affect the company's solvency. Suitable measures include asset liability management (ALM) models, stress tests and dynamic solvency analyses.

Particular attention should be paid to the risks of a mismatch between investments and liabilities (asset liability management).

Besides the specifically material findings, the report should also contain statements about the quality and extent of the underlying data sets.

8. Recommendations

In their reports, actuaries are required to draw attention to any risks that in their view constitute a threat to solvency, be they underwriting risks, market risks, credit risks, operational risks or strategic risks. They must point out possible measures that the company could use to counter unfavourable developments and make known their recommendations.