



Circular No. 8 of 2014

Circulars File

14 November 2014

Insurance Council of Zimbabwe (ICZ)

Zimbabwe Association of Reinsurance Organizations (ZARO)

Zimbabwe Insurance Brokers Association (ZIBA)

### ACTUARIAL VALUATION FOR SHORT TERM INSURANCE COMPANIES

- 1 Subsequent to several engagements with the Actuarial Society of Zimbabwe (ACZ) and the generally agreed need for short term companies to embrace actuarial inputs in their operations, the Insurance and Pensions Commission (IPEC) is of the view that it is imperative for short term companies to produce actuarial valuation reports. This is more so given our Circular No.1 of 2014.
- 2 Critical is the standardization or harmonization of methods used by actuaries in carrying out actuarial valuations of short term companies.
- 3 Most specifically the valuation should cover the following items:
  - a) *Technical Provisions*
    - Case estimates of all outstanding claims
    - Provision for claims incurred but not yet reported (IBNR)
    - Provision for future development on known claims, incurred but not enough reported (IBNER)
    - Estimates of reported claims
    - Claim handling expenses provisions
    - Unearned premium provisions (UPR)
    - Additional unearned risk reserves (AURR)

*b) Asset – Liability Matching*

The quality of assets being used to back liabilities must be checked. In addition, the actuary must ascertain that the assets match the liabilities by term, nature and currency.

*c) Solvency Position*

The solvency of the company must be checked, taking into account the asset quality and adequacy of reserves set aside or calculated for this purpose.

*d) Analysis of Emerging Experience*

Where practicable, actuaries should include in the reports, an analysis of emerging experience, for example material changes in approach to key assumptions from previous reports. The actuary should describe the changes and their impact on the results.

In conducting the calculations or assessments above, the actuaries must disclose the following:

*i. Data Used*

The reports produced should highlight the source of the data used. Moreover, the extent to which responsibility for data accuracy or completeness must be disclosed.

*ii. Methodology*

Players must ensure that actuaries disclose in full detail, the methods used in doing the different calculations.

*iii. Key Assumptions*

There should be clear specification and discussion of the key assumptions and judgments made.

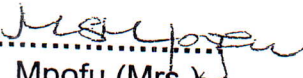
iv. *Uncertainty*

The actuarial report must indicate the nature, degree and sources of uncertainty surrounding the results and sensitivities to key assumptions. Where practicable uncertainty should be quantified. However where this is not possible, a report using an appropriate descriptive summary should suffice.

- 4 IPEC would like to have the valuation reports produced with effect from the 2014 financial year end.

In addition, as some of these reports could be bulky, IPEC wants these reports to be accompanied by an addendum, indicating a snap short of the critical issues for our analysis and quick decision making.

- 5 You are therefore required to review the attached draft addendum and revert to IPEC with your comments, if any, by the 15<sup>th</sup> December 2014.

  
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M. S. Mpofu (Mrs.)

**Commissioner of Insurance, Pension and Provident Funds**



Name of Insurer : \_\_\_\_\_

Date of Valuation : \_\_\_\_\_

**APPENDIX 3: IPEC'S CHECKLIST FORM**

ITEM	BREAKDOWN	METHODOLOGY	KEY ASSUMPTIONS/RATIOS	RESULTS/CONCLUSIONS
TECHNICAL PROVISIONS	IBNR			
	IBNER			
	Case estimates of all Outstanding Claims			
	Estimates of Reopened claims			
	Claims handling expenses provisions			
	UPR			
	AURR			
ASSET QUALITY				
ASSET LIABILITY MATCHING				
SOLVENCY POSITION				
ANALYSIS OF EMERGING EXPERIENCE				

Name of Actuary : \_\_\_\_\_

Qualification : \_\_\_\_\_

Signature & Date : \_\_\_\_\_

ST INSURER LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2005

4. SEGMENT INFORMATION

	2005 Total \$m	2004 Total \$m
Gross written premium		
Motor	xxx	xxx
Marine	xxx	xxx
Fire and General	<u>xxx</u>	<u>xxx</u>
	<u>xxx</u>	<u>xxx</u>
Technical Result		
Motor	xxx	xxx
Marine	xxx	xxx
Fire and General	<u>xxx</u>	<u>xxx</u>
	<u>xxx</u>	<u>xxx</u>