

**GUIDELINE ON
ACTUARY'S REPORT OF INVESTIGATION
IN RESPECT OF
LONG TERM BUSINESS**

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1. Introduction

- 1.1 The Insurance Authority (“IA”) issues this Guideline pursuant to section 133 of the Insurance Ordinance (Cap. 41) (“the Ordinance”) in furtherance of its principal function to regulate and supervise the insurance industry for the promotion of the general stability of the insurance industry and for the protection of existing and potential policy holders.
- 1.2 Pursuant to section 18(1) of the Ordinance, an authorized insurer must, once in every 12 months or at such shorter intervals as the IA may require, cause an investigation to be made into its financial condition in respect of its long term business including a valuation of its liabilities in respect of that business, by its actuary appointed under section 15AAA(1) of the Ordinance for that business (“Appointed Actuary”).
- 1.3 This Guideline is issued to set out the minimum scope and content of the actuary’s report to be furnished for such investigation.
- 1.4 This Guideline does not have the force of law, in that it is not subsidiary legislation, and should not be interpreted in a way that would override the provision of any law. Non-compliance with the provisions of this Guideline would not itself constitute a breach of the law or render insurers liable to judicial or other proceedings. However, since this Guideline provides guidance on the minimum content and documentation expected by the IA for the actuary’s report, non-compliance may reflect on the IA’s view of the fitness and properness of the Appointed Actuary.
- 1.5 The IA may from time to time elaborate upon or amend the whole or any part of this Guideline.

2. Application

- 2.1 This Guideline applies to an authorized insurer in respect of its long term business. Pursuant to section 18(3) of the Ordinance, for an authorized insurer described in section 21B(4) or (7) of the Ordinance, a reference

to the insurer's long term business is a reference to the insurer's long term business carried on in or from Hong Kong.

- 2.2 Unless expressly stated otherwise, the terms defined in the Ordinance and its subsidiary legislation shall have the same meaning whenever used in this Guideline.
- 2.3 In this Guideline, "insurance liabilities", in relation to the long term business carried on by an authorized insurer, refers to:
- (a) its long term insurance liabilities determined in accordance with Subdivision 2 of Division 2 of Part 4 of the Insurance (Valuation and Capital) Rules (Cap. 41R) ("RBC Rules"); and
 - (b) its general insurance liabilities determined in accordance with Subdivision 3 of Division 2 of Part 4 of the RBC Rules, arising from any additional business of the nature of class 1 or 2 specified in Part 3 of Schedule 1 to the Ordinance which does not have a long boundary.
- 2.4 Words and expressions in the singular in this Guideline include the plural, and words and expressions in the plural include the singular.

3. Actuary's Report of Investigation

- 3.1 The Appointed Actuary who makes the investigation into the financial condition in respect of the long term business of an authorized insurer as at the end of each financial year should prepare a formal report of the investigation. Clear and comprehensive documentation is expected for the report to enable a knowledgeable reader to understand the financial condition in respect of the insurer's long term business, including the determination of insurance liabilities and key judgements exercised by the Appointed Actuary.
- 3.2 Pursuant to rule 6(3)(a) of the Insurance (Submission of Statements, Reports and Information) Rules (Cap. 41S), the report must include the general principles, details of the methods, assumptions (with

justification), and analysis used by the Appointed Actuary in valuing the insurance liabilities by each type of long term business. At a minimum, the report should cover the following:

- (a) Definition of terms and expressions used in the report that may be ambiguous or open to interpretation;
 - (b) Data;
 - (c) Valuation methodology;
 - (d) Valuation assumptions; and
 - (e) Results analysis and commentary.
- 3.3 The report must be signed by the Appointed Actuary, and include a certificate duly signed by the Appointed Actuary containing the information specified in rule 6(3)(b) of Cap. 41S. A pro-forma actuary's certificate prescribed for the purpose of this Guideline is set out in Annex A.
- 3.4 In preparing the report in accordance with paragraphs 3.6 to 3.17, the Appointed Actuary should ensure that all material aspects of the valuation of insurance liabilities in respect of the authorized insurer's long term business are addressed. Further, the Appointed Actuary should be satisfied that the information included in the report is complete and appropriate, with particular attention drawn to any material and highly uncertain areas.
- 3.5 To avoid doubt, any of the requirements relating to the "immediately preceding report" as set out in paragraphs 3.6 to 3.17 do not apply to the first actuary's report submitted by an authorized insurer in respect of its long term business following adoption of the risk-based capital regime.

Data

- 3.6 The report should include the following information regarding the data used by the authorized insurer for the valuation of insurance liabilities in respect of its long term business:
- (a) specific steps taken by the Appointed Actuary to verify the completeness, accuracy and consistency of the data collated, with any reliance on data supplied by others to the team working under his or her supervision in connection with the report or any limitations clearly explained; and
 - (b) where any significant adjustment has been made to the data, a clear explanation of the nature, amount and rationale for such adjustment.

Valuation methodology

- 3.7 Regarding the methodology used by the authorized insurer in the valuation of insurance liabilities in respect of its long term business, the Appointed Actuary should:
- (a) explain the methodology used for each type of long term business;
 - (b) disclose and explain any significant approximations or simplifications used in the valuation process, including an assessment of whether the impact arising from each of such approximations or simplifications would constitute potential material misstatements to the valuation; and
 - (c) disclose and justify any significant changes in the valuation methodology from the immediately preceding report (if any), including an explanation and quantification of the financial impact arising from each of such changes.
- 3.8 The report should include the following information regarding the valuation model(s) used by the authorized insurer for the determination

of insurance liabilities in respect of its long term business:

- (a) description of the valuation model(s) used for each type of long term business;
- (b) specific steps taken by the Appointed Actuary to verify that the valuation model(s) implement the methodology as intended, with any limitations clearly explained;
- (c) specific steps taken by the Appointed Actuary to review and validate the results from the valuation model(s);
- (d) the amount of insurance liabilities valued by each valuation model used;
- (e) disclosure of and justification for any significant off-model adjustments; and
- (f) disclosure of and justification for any significant changes in the valuation model(s) from the immediately preceding report (if any), with an explanation and quantification of the financial impact from each of such changes.

3.9 The Appointed Actuary should disclose the process for determining the contract boundary for the relevant insurance contracts, including:

- (a) the unbundling of distinguishable sets of insurance obligations under the insurance contracts before assessing contract boundaries, with any limitations clearly explained;
- (b) justification for whether the authorized insurer has the practical ability to reassess the risks of a contract of insurance or a portfolio of contracts of insurance that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risks;
- (c) justification for whether the pricing of the premiums for coverage up to the date when the risks are reassessed takes into account the risks that relate to periods after the reassessment date; and

- (d) disclosure of and justification for any significant changes in the contract boundary assessment from the immediately preceding report (if any), with an explanation and quantification of the financial impact arising from each of such changes.

Valuation assumptions

3.10 Regarding the assumptions used by the authorized insurer in the valuation of insurance liabilities in respect of its long term business, the Appointed Actuary should:

- (a) state clearly the key assumptions used in the valuation for each type of long term business;
- (b) explain how the assumptions used in the valuation are derived and whether they are fit for purpose;
- (c) for discount rates used in the valuation:
 - (i) explain how the Matching Adjustment (“MA”) portfolios are constructed based on the insurer’s asset and liability management practice; and
 - (ii) describe the investment strategy for each MA portfolio;
- (d) for any allowance for future discretionary benefits recognized in the valuation:
 - (i) describe and justify whether the amount of these benefits is consistent with the insurer’s expected future experience, policy holder’s reasonable expectations, and the underlying economic scenarios on which the valuation is based;
 - (ii) describe and justify whether the amount is consistent with the discount rates used to value the relevant insurance liabilities;

- (iii) describe and justify whether the amount takes into account the insurer's level of accumulated policy holder surplus or deficit as at the valuation date;
 - (iv) describe and justify any projected changes to the insurer's asset allocation after the valuation date, and explain how these changes may impact the allowance for future discretionary benefits; and
 - (v) describe and justify whether the allowance for future discretionary benefits is aligned to guidelines issued by the IA that relate to the management of participating business, universal life business, and any other business having discretionary benefits;
- (e) describe and justify any management actions allowed for in the valuation of insurance liabilities under the base scenario and the scenarios as prescribed by the RBC Rules for determining the risk capital amounts; and
 - (f) disclose and justify any material changes in assumptions from the immediately preceding report (if any), including an explanation and quantification of the financial impact from each of such changes.

3.11 The Appointed Actuary should analyze the actual experience of the long term business against the key valuation assumptions used in the immediately preceding report (if any). Where there is any material difference, the Appointed Actuary should comment on the differences and explain how they may affect the key valuation assumptions used in the current report and the extent to which these assumptions are supported by actual experience.

Results analysis and commentary

3.12 The report should include the following return forms (where applicable to the authorized insurer), accompanied by detailed commentary from the

Appointed Actuary on material aspects of the analysis of valuation results and year-over-year movements:

- [F.2 EBS by LT Portfolios]
- [F.3 AOM]
- [F.LT.1.1 LT CE Summary]
- [F.LT.1.2 LT CE Supp]
- [F.LT.2 LT MOCE]
- [F.LT.3 TVOG]
- [F.LT.4 ClaimLiab_LT_A&H]
- [F.LT.5 PL_LT_A&H]
- [F.LT.5A PL_Recog_LT_A&H]
- [F.LT.5B PL_notRecog_LT_A&H]
- [F.LT.6 Par Business]
- [F.LT.MA.X.1 Portfolio info]
- [F.LT.MA.X.2 MA Asset Data]
- [F.LT.MA.X.3 MA Liability Data]
- [F.LT.MA.X.4 MA Cashflow]
- [F.LT.MA.X.5 MA Result]
- [CA.P.3 LAC FDB]
- [S.CG Simplified EBS]

3.13 The report should contain a summary of the material reinsurance arrangements in force, state whether they are appropriately reflected in the valuation of insurance liabilities in respect of the authorized insurer's long term business, with due consideration given to the criteria under rule 41(2) of the RBC Rules, and highlight any significant changes from the immediately preceding report (if any). The report should also confirm whether the Appointed Actuary is satisfied that adequate arrangements are in force, or will be made within a specified time frame, for the reinsurance of risks in respect of the insurer's long term business.

3.14 The report should contain a summary of the valuation results demonstrating the authorized insurer's compliance with the requirements stipulated under sections 21B and 22 of the Ordinance. It should also summarize any surplus transfers made in the current reporting period, in

accordance with section 23 of the Ordinance, into or out of each fund or sub-fund maintained by the insurer under section 21B of the Ordinance.

- 3.15 The report should contain a description of the authorized insurer's asset-liability management strategy for each physically or notionally segregated portfolio of its long term business. The report should provide detailed justification for the Appointed Actuary's opinion on whether there is a prudent and satisfactory relationship between the nature and term of the assets and liabilities of the long term business, having regard to the principles set out in the Guideline on Asset Management by Authorized Insurers (GL13) as applicable.
- 3.16 The Appointed Actuary should analyze the sensitivity of valuation results to any key sources of uncertainty to which the authorized insurer is subject, in terms of the data, valuation methodology and assumptions used. Material uncertainties (apart from generic uncertainty statements) should be highlighted and their significance should be quantified. For example, the quantification may be based on the impact to valuation estimates if key assumptions do not hold true.
- 3.17 If the Appointed Actuary deviates from this Guideline, the report should disclose the extent of and rationale for any deviation, together with the potential implications.

4. Commencement

- 4.1 This Guideline shall come into effect on 31 December 2024.

December 2024

**ACTUARY’S CERTIFICATE
IN RESPECT OF LONG TERM BUSINESS
CARRIED ON [IN OR FROM HONG KONG*] BY
[NAME OF AUTHORIZED INSURER]
AS AT [31 DECEMBER XXXX]**

In accordance with rule 6(3)(b) of the Insurance (Submission of Statements, Reports and Information) Rules (Cap. 41S), I certify that—

- (a) in my opinion, proper records have been kept by the company adequately for the purpose of the valuation of the insurance liabilities in respect of the company’s long term business [carried on in or from Hong Kong*];
- (b) I am satisfied with the completeness, accuracy and consistency of the data used in the valuation of the insurance liabilities in respect of the company’s long term business [carried on in or from Hong Kong*];
- (c) the insurance liabilities in respect of the company’s long term business [carried on in or from Hong Kong*] have been valued in accordance with the Insurance (Valuation and Capital) Rules (Cap. 41R) and the relevant guidelines as issued by the Insurance Authority (“IA”);
- (d) in my opinion, the valuation of the insurance liabilities in respect of the company’s long term business [carried on in or from Hong Kong*] makes appropriate provision for the company’s policy obligations;
- (e) I am satisfied that the company complied with the requirements stipulated under sections 21B and 22 of the Insurance Ordinance (“the Ordinance”) as at the date to which the valuation relates;
- (f) in my opinion, there is a prudent and satisfactory relationship between the nature and term of the assets, and the nature and term of the liabilities, of the company’s long term business [carried on in or from Hong Kong*];
and

* Only applicable to an authorized insurer described in section 21B(4) or (7) of the Ordinance

- (g) I have complied with the [prescribed standards under section 15C of the Ordinance / XXX standards which are accepted by the IA as being comparable to the prescribed standards].

[Any other information as the actuary considers necessary, including any qualification, amplification or explanation as appropriate]

Signature : _____
[Name of Appointed Actuary]
Appointed Actuary

Date : _____