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21 December 2017

Managing Director
Cayman Islands Monetary Authority
P.O. Box 10052
80e Shedden Road
Elizabethan Square
Grand Cayman KY1-1001
Cayman Islands

Dear Sir/Madam

Re: Private Sector Consultation Paper on proposed Statement of Guidance on Actuarial Valuation Reports

The Caribbean Actuarial Association (CAA) is pleased to provide the Cayman Islands Monetary Authority (CIMA) with comments on the proposed Statement of Guidance on Actuarial Valuation Reports.

The CAA's mandate includes the encouragement and support of the development of actuarial science in the Caribbean and as part of this mandate promotes the maintenance of high standards within the actuarial profession in the Caribbean. The CAA is a full member of the International Actuarial Association (IAA) and is governed by its Constitution, Codes of Conduct, Disciplinary Process, Actuarial Practice Standards and Continuing Professional Development (CPD) policy.

The CAA's comments were prepared by its Life Committee and were reviewed internally before distribution. The members of the Life Committee are:-

Horace Johnson - Chair
Sapna Chatlani
Simone Balkissoon
Angela Beckford
Marcia Tam-Marks

Our comments are as follows:-

1. Nomenclature

The nomenclature used for Statement of Guidance Appendices 1 and 2 is a bit confusing. Apart from reference to Appendices 1 and 2, reference is also made to Appendix I (Structure of Actuarial Valuation Reports) within Appendix 1 and there is more than one Table II (*Summary*

of Valuation Reporting Requirements and Costs and Benefits of Implementing Guidance for Insurance Actuarial Valuation Reports) within Appendix II. The naming convention of these documents needs to be rationalized and more appropriately labelled for greater ease of reference.

2. Section 4.1 (a) of Appendix 1 – Definitions

While the definition of Actuary proposed by CIMA is understandable from the standpoint that most of the actuaries practising in the Cayman Islands are members of the SOA/CIA, it is nonetheless incorrect; it currently makes reference to the Institute of Actuaries in England and the Faculty of Actuaries in Scotland. These two bodies merged on August 1, 2010, and the reference needs to be amended to *the Institute and Faculty of Actuaries* (IFoA) in the UK, if this type of definition is used.

In any event, we recommend and encourage CIMA to consider the following guide in an effort to produce a more comprehensive, all-encompassing definition:

- ***The Statement of Guidance should define an actuary as a Fellow of an actuarial accreditation body that is a full member of the International Actuarial Association.*** This ensures that actuaries with designations from actuarial bodies other than the SOA and IFoA are covered.
- ***The definition should require the actuary to be in good standing with his/her professional actuarial organization that is recognized by the Authority for the purpose of the Law.*** This ensures that the actuary is compliant with the relevant CPD and other professional requirements.

NOTE: There was some discussion in relation to incorporating reference to CAA membership within the definition of actuary. One school of thought was for the definition to require the actuary to abide by the Code of Conduct of his/her professional organisation and the standards of practice of the CAA. But the other school of thought is the definition already recognizes the actuary as a Fellow of an actuarial accreditation body that is a full member of the IAA, which would cover the attendant requirement to abide by the Code of Conduct and standards of practice. An important point is that most of the regional definitions currently in place or being proposed make reference to membership in the IAA which would cover CAA membership, and hence reference to the latter would be superfluous.

3. Section 5.3 of Appendix 1- General Guidance

This states that “Insurers should ensure that actuarial valuation reports are prepared, at a minimum, in accordance with international best practice” but international best practice is not defined. Table II in Appendix 2 sets out a comparison of several jurisdictions which only serves to illustrate that there has not been consensus on international best practice. It would be helpful if CIMA could be specific about their expectations when it comes to international best practice.

The CAA has promulgated two Actuarial Practice Standards that are relevant. “Actuarial Practice Standard 0 - General Actuarial Practice” provides general guidance to actuaries in performing their duties and “Actuarial Practice Standard 2 – The Prudential Supervision of Long-Term Insurance Business” provides specific guidance on long-term insurance actuarial valuations. Both actuarial standards are available on our website at: <https://caa.com.bb/Governance/Standards-of-Practice.aspx>. We recommend that CIMA require that actuarial valuation reports be prepared in accordance with the Caribbean Actuarial Association’s Actuarial Practice Standards.

4. Section 6.3 of Appendix 1- Relations with the Authority

This is a requirement for insurers to be transparent on any matter which could impact the quality or validity of the results of the actuarial valuation report.

This should be amended to read:

“...any matter which could **materially** impact the quality or validity of the results of the actuarial valuation report.”

5. Appendix I - Structure of Actuarial Valuation Reports – Technical Section

Some clarification would be useful in relation to the meaning or intent of Items 3.2 – 3.6. It is our understanding that the Authority is currently looking for examples, so using 3.2 as an example, are they expecting the actuary to show how the cash flows are projected on a sample policy and how these cash flows discount to the reserve?

6. Appendix I - Structure of Actuarial Valuation Reports – Risk Management / Capital Adequacy

We encourage CIMA to consider giving companies the flexibility to choose whether to include a section on risk management or capital adequacy within the report or provide a separate report, particularly on capital adequacy to mirror the stress test reports currently produced in some jurisdictions. The latter would allow the actuary to provide a full report on the future financial condition of the company under a number of plausible scenarios/threats, in a manner that would be helpful to the regulator or any user of that report, and could therefore be seen as exceeding the minimum reporting requirement for CIMA. An illustrative analogy of this is seen in Jamaica, where some companies perform Canadian Asset Liability Method (CALM) valuations although the Policy Premium Method (PPM) is the minimum regulatory requirement.

7. Appendix I - Structure of Actuarial Valuation Reports – Summary Section

Item 5.7 appears to stipulate some form of source of earnings type analysis, but this is not entirely clear and requires clarification.

8. Appendix 2 Section F (Scope of Application and Rationale for Issuing Guidance on Actuarial Reports)

This makes reference to **appointed actuary** on Page 6, although appointed actuary is not defined in the Guideline. Was this an oversight? As a practical matter, the role of the actuary as described in both Appendices substantially meets that of an appointed actuary, hence it may be prudent for the Authority to define and utilize the term throughout the Guidance. On the other hand, the definition of actuary may be appropriate as it would allow for circumstances where the reserves are signed off by a Resident Actuary with eventual sign-off by an Appointed Actuary at a higher level, particularly for a Group of companies where one life insurance company owns (or is a majority owner of) another life insurance company. Either way, this requires clarification.

We thank you for the opportunity to comment on the CIMA's proposed Statement of Guidance on Actuarial Valuation Reports and please accept our apologies for the late submission. We look forward to participating in any similar consultations.

Sincerely,



Janet Sharp
President
Caribbean Actuarial Association