Financial Services Commission
Mauritius

GUIDELINES

ON

CONTINGENCY PLAN

FOR INSURERS

(Issued under section 7 (1) (a) of the Financial Services Act 2007 and section 130 of the Insurance Act 2005)

February 2008

1. INTRODUCTION

1.1. The Insurance Act 2005, the Insurance (Long Term Insurance Business Solvency) Rules 2007 and the Insurance (General Insurance Business Solvency) Rules 2007 require insurers to maintain the required solvency and capital requirement ratio, as the case may be, of the company at all times. If the solvency or the capital requirement ratio of the company falls below the stipulated/target level, insurers are required to submit a contingency plan. The Guidelines aim to provide a broad framework and the basic information to be included in the contingency plan.

1.2. Pursuant to its powers, the Guidelines are issued by the Commission under section 7(1)(a) of the Financial Services Act 2007 and section 130 of the Insurance Act 2005.

2. PURPOSE AND STATUS OF THE GUIDELINES

2.1. In order to meet its statutory objectives and functions as set out in the Financial Services Act 2007, the Commission has stipulated the content of the contingency plan to be submitted by insurers where the solvency and the capital requirement ratio, as applicable, fall below the minimum requirements or target level prescribed under the Insurance (Long Term Insurance Business Solvency) Rules 2007 and the Insurance (General Insurance Business Solvency) Rules 2007, respectively.

2.2. The Commission expects all insurers to have regard to these Guidelines so as to help foster professional standards.

2.3. The Guidelines are meant to provide the minimum standards for the contingency plans. It is not intended to replace or override any provisions under the law. The Guidelines should be read in conjunction with the provisions of the Insurance Act 2005, regulations made thereunder and any other rules, guidelines, circulars and notices that the Commission may issue from time to time.

2.4. Non-compliance with the Guidelines will expose the licensee to regulatory action which may include a direction under section 7(1)(b) of the Financial Services Act 2007 to ensure compliance with the Guidelines. Failure to comply with the direction may lead to criminal sanction and regulatory action under section 7(1) (c) of the Financial Services Act 2007.

3. APPLICATION

3.1 The Guidelines shall apply to all insurers where the solvency and/or the capital requirement ratio, as applicable, fall below the minimum requirements or target level prescribed by the Insurance (Long Term Insurance Business Solvency) Rules 2007 and the Insurance (General Insurance Business Solvency) Rules 2007.

3.2 The Guidelines may be subject to review and may be amended by the Commission from time to time.

4. CONTINGENCY PLAN

The Contingency Plan shall include, *inter alia*:

4.1. The purpose of the plan;

4.2. Comments on the current solvency position of the company and causes for the company not meeting the minimum solvency margin or the target level for minimum capital requirement ratio, as applicable;

4.3. Proposal for the future course of management actions to restore the solvency/capital requirement ratio to the minimum or target levels required, as applicable, which shall include:

4.3.1. The level of capital infusion planned, if any;

4.3.2. The source of proposed capital infusion;

4.3.3. The timing of capital infusion;

4.3.4. Expected time period to restore the solvency margin to the prescribed minimum levels;

4.3.5. Expected experience during the time period referred to in 4.3.4;

4.3.6. Expected new business, if allowed, during the time period referred to in 4.3.4 and the availability of capital for writing new business;

4.3.7. Expected new products to be launched in the market during the time period referred to in 4.3.4, the corresponding capital requirement and the availability of capital to write such products;

4.3.8. Comment on the profitability of the existing products;

4.3.9. Review and analysis of underwriting strategies, reinsurance strategies, investment strategies, pricing philosophy, bonus philosophy, analysis of surplus with specific emphasis to expenses and marketing strategies;

4.3.10. Analysis of claims by exits like surrenders, deaths, maturities, hospitalisation, third party, accidents, etc.;

4.3.11. Analysis of lapses by distribution channel; by year of issue; by product type;

4.3.12. Expected changes in investment / asset mix;

4.3.13. Projected financial statements for each year up to the time period referred to in 4.3.4, along with all the assumptions made and management actions proposed;

4.3.14. Comment on the provisions made for catastrophes, if any; and

4.3.15. Other aspect relevant to the business being conducted.

4.4. Limitations and uncertainties, if any, in respect of the proposed contingency plan;

4.5. Any particular characteristics of existing or new business that may require special consideration;

4.6. Projected Balance Sheets and Income Statements at the end of each quarter during the first year of projection and at the end of each year thereafter during the time period referred to in 4.3.4, by allowing for all the relevant factors, such as:

4.6.1. Management actions planned;

4.6.2. Terms on which new business will be written;

4.6.3. Marketing plans, in particular the expected volumes and costs of sales, and expected market conditions;

4.6.4. Reinsurance, underwriting and claims handling arrangements;

4.6.5. Persistency of the business written and the terms for discontinuance;

4.6.6. Systems of control which the insurer has established or is planning to establish, especially those relating to operational risk;

4.6.7. Budgeted premium income and new business;

4.6.8. Expected changes in the asset mix of the company;

4.6.9. Extent to which assets and liabilities are matched by term, by type and by currency;

4.6.10. Expected changes in distribution channels and associated changes expected in persistency ratios, management expenses and commission levels;

4.6.11. Expected management expenses and expense inflation; and

4.6.12. Expected value of assets.

4.7. In the case of long term insurance business, the financial statements referred to in 4.6 shall also consider the following:

4.7.1. Existing investments of the long term business assets and the proposed investment policy;

4.7.2. Nature, extent and availability of the insurer's assets outside the long term business fund;

4.7.3. Current and likely future levels of mortality and morbidity;

4.7.4. Insurer's policy with regard to the nature and timing of allocations of bonus/profits to policyholders and/or shareholders;

4.7.5. Transfers which are likely to be made to Shareholders' Funds out of Policyholders' Funds, if any;

4.7.6. For unit-linked policies, the current and proposed pricing policies for internal linked funds.

4.8. Projected solvency position of the company at the end of each quarter during the first year of projection and at the end of each year thereafter during the time period referred to in 4.3.4, including the following:

4.8.1. Total capital available;

4.8.2. Expected value of liabilities (policyholders and shareholders);

4.8.3. Expected value of assets within concentration limits;

4.8.4. Minimum capital required;

4.8.5. Expected solvency margin;

4.8.6. In case of long term insurance business, the expected Stress Test Requirement.

4.9. Comments on sensitivity of the proposal to any specific parameter or risks, which may adversely affect the outcome of the contingency plan.

4.10. The methods and assumptions that have been used. The assumption used shall be distinguished, categorised in terms of their relative importance in the context of the proposal along with their sensitivity in terms of whether they are influenced by internal factors or external factors.

4.11. Where appropriate, the report should state how the assumptions adopted compare with recent experience, and should give explanations where assumptions differ significantly from that experience.

4.12. Any significant restrictions to the scope or detail of the analysis for reasons such as the lack of availability of data, shortcomings in computer systems, or availability of resources to carry out the analysis.

5. SUBMISSION OF CONTINGENCY PLAN

5.1. A copy of every account, balance sheet, report, return or statement required to be prepared under section 4 of the Guidelines shall be signed by two directors. In the case of a long term insurer, all reports and other documents prepared by the actuary must be signed by the latter.

5.2. The Contingency Plan shall be submitted to the Commission immediately after the insurer falls below the minimum requirements with regard to the solvency and/or the capital requirement prescribed by the Insurance (Long Term Insurance Business Solvency) Rules 2007 and the Insurance (General Insurance Business Solvency) Rules 2007.

6. MONITORING OF THE CONTINGENCY PLAN

6.1 The insurer shall monitor the Contingency Plan by comparing the actual experience against the projected results. Where actual results differ from projected results, the insurer shall prepare and submit to the Commission a report:

6.1.1 explaining why the projections did not match actual performance;

6.1.2 elaborating on actions being taken to prevent deviations to recur.

6.2 The report shall be prepared at the end of each quarter and shall be submitted to the Commission by latest one month after the end of each quarter.

Financial Services Commission

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