

The text below is an internet version of the Rules made by the Financial Services Commission under section 93 of the Financial Services Act 2007 and under sections 23 and 130 of the Insurance Act 2005 and is for information purposes only. Whilst reasonable care has been taken to ensure its accuracy, the authoritative version is the one published in the *Government Gazette* of Mauritius read together with subsequent amendments in the *Government Gazette* of Mauritius.

INSURANCE (LONG-TERM INSURANCE BUSINESS SOLVENCY)

RULES 2007

(Consolidated version with amendments as at 03 September 2022)

FSC Rules made by the Financial Services Commission under sections 23 and 130 of the Insurance Act

1. These Rules may be cited as the Insurance (Long-Term Insurance Business Solvency) Rules 2007.

2. In these Rules,

“Act” means the Insurance Act 2005;

“best-estimate assumptions” means realistic assumptions which depend upon the nature of the business and which should be guided by immediate past experience, as modified by any knowledge of, or expectations regarding, the future. Where assumptions are interrelated, such as discount rates, bonus rates and expense inflation, the assumptions must be consistent;

“bonus stabilisation reserve” means in relation to a class of participating policies, the aggregate of the fair value of the underlying assets relating to that class of policies less the aggregate of policy accumulation fund within that class of policies;

“collective investment scheme” has the same definition as in the Securities Act 2005;

“Commission” means the Financial Services Commission established under the Financial Services Act 2007;

“custodian” has the same meaning as in the Act;

“insurer” for the purposes of these rules means a long term insurer as defined under the Act;

“linked long term policies” has the same meaning assigned to it by the Act;

“minimum capital requirement” has the same meaning assigned to it by rule 13;

“policy accumulation fund” in relation to a policy, means, the accumulated sum of the premiums, net of risk and other charges, invested in the policy and, either

- (a) the bonuses, including non-vesting bonuses, net of funds and other charges, declared under the policy; or
- (b) the investment returns, net of funds and other charges, earned on the underlying assets relating to the policy.

“property” includes direct investment in investment properties, mortgages and land and building for an insurer’s own use;

“related company” has the same meaning as in the Companies Act 2001;

“reversionary bonuses” means –

- (a) bonuses that are declared at regular intervals out of the profits of the long term insurer as a percentage of sum assured or bonuses or both;
- (b) regular bonuses along with the terminal bonuses, if any, which become payable either on death, surrender, maturity or any other event as per the terms of the contract.

“smoothed bonuses” means bonuses that are declared at regular intervals out of the profits of the Long term insurer by way of additions or as a percentage to the policy accumulation fund;

“statutory solvency method” means the value of assets, liabilities and minimum capital requirement calculated in terms of the Act, the requirements prescribed in these rules and any guidelines issued by the Commission;

“solvency margin” has the same meaning assigned to it by rule 13 (1);

“structured investment-linked insurance business” has the same meaning as in the Act.

Amended by [GN No. 238 of 2022]

Principles for determination of value of liabilities according to the statutory solvency method.

3. (1) An insurer shall, for the purposes of determining the value of liabilities, take into account the following -
 - (a) premiums to be received in the future;
 - (b) options regarding future investment returns, bonus declarations, expenses, mortality experience, morbidity experience, lapses, surrenders, and other relevant factors, which assumptions -

- (i) shall be best-estimate assumptions;
 - (ii) shall take into account the reasonable expectations of policyholders and any established practices of an insurer for payment of benefits;
 - (iii) shall be modified by prescribed margins;
 - (iv) may be modified further by discretionary margins based on the expected experience and to ensure the prudent release of profit.
 - (c) a minimum level of financial resilience;
 - (d) the full value of non-vested bonuses, already accumulated or to be paid out on death shall always be valued. In addition, future additions to such bonuses shall be assumed.
- (2) The method of calculation of the amount of liabilities and the assumptions for the valuation parameters used by the insurer shall not be subject to arbitrary discontinuities from one year to next.
- (3) The method used in determining the value of liabilities from year to year shall recognise profit in an appropriate way over the duration of each policy, and shall not be subject to discontinuities arising from arbitrary changes to the valuation basis.
- (4) The premiums to be valued shall be those which are due to be paid under the term of each policy.
- (5) The valuation method shall take into account the cost of any options that may be available to the policyholder under the terms of each policy.
- 4.** (1) An insurer shall when determining the value of liabilities take into account the nature, currency, term and method of valuation of the assets representing those liabilities.
- (2) The value placed upon the assets under paragraph (1) shall include provisions against the effects of possible future changes and the ability of the insurer to meet its obligations under policies as they arise.
- 5.** The value of liabilities of an insurer shall include provision for expected allocations of profit to shareholders, and the bonus rates declared for policyholders as per section 18(5) of the Act.
- 6.** The insurer shall disclose in the report of the actuary to the Commission, the reserving method and basis for valuing liabilities.

Valuation parameters

7. (1) The valuation parameters for the valuation of liabilities of an insurer, shall constitute the bases on which the future policy cash flows shall be computed and discounted.
- (2) Each parameter shall be appropriate to the class of business to be valued.
- (3) The actuary of an insurer shall, when estimating valuation parameters, take into consideration the following-
 - (a) (i) the value(s) of the parameters based on the insurer's experience study, where available;
(ii) where no reliable experience is available, the value(s) can be based on the industry study, if available and appropriate;
(iii) If no experience is available under (i) and (ii), the values may be based on the bases used for pricing the product.
 - (b) any likely deterioration in the experience in establishing the expected level of any parameter;
 - (c) (i) the expected level, as determined in sub-paragraph (a) above, shall be adjusted by a prescribed margin as referred to in the First Schedule;
(ii) in addition to the prescribed margins, these estimates shall be adjusted by appropriate discretionary margins and the level of such discretionary margins for each parameter shall be based on the degree of confidence in the expected level.
- (4) (a) In order to achieve consistency between the value placed on the assets and the liabilities, the rates of interest to value the liabilities shall not be higher than the rates of interest determined from assessment of the yields from existing assets attributable to the liabilities and the yields which the long term insurer is expected to obtain from the amounts invested in the future;
- (b) The rate of interest shall also take into account the likely fluctuations in the currency in which the policy is denominated and the currency of the corresponding asset.
- (c) The assessment of yield shall take into account –
 - (i) future investment conditions including the reinvestment and disinvestment strategy to be employed in respect of future net cash flows;

- (ii) credit risk in respect of income and capital repayment;
 - (iii) investment expenses;
 - (iv) risk of decline in the future interest rate.
- (d) The insurer shall ensure that the allowance for future bonuses is consistent with the valuation of the rate of interest.
- (e) In case of reversionary bonus policies, where an explicit allowance is not made for future bonuses, a rate of interest shall be used which is lower than the rate used as per subparagraph (a) to (c).

Report of the Actuary

8. (1) Where an investigation into the financial position is made, the insurer shall furnish to the Commission a copy of the report of the insurer's actuary accompanied by such returns required to be submitted to the Commission under the Act and Insurance (Returns) Rules 2007.
- (2) In addition to the requirements of the Act, the report of an insurer's actuary shall include the following –
- (a) a summary of the data including sources of data and grouping as well as highlighting any shortcomings in the data;
 - (b) a statement of the solvency position at the valuation date, the previous valuation date and an estimate of the expected solvency position in 12 months time;
 - (c) the assumptions and methodology used to calculate the value of liabilities for all classes of business;
 - (d) a statement of comparison of the assumptions used for valuation and pricing along with any management actions that have been taken into account when valuing the liabilities;
 - (e) any uncertainty with respect to specific assumptions as well as the assumptions to which the final results are particularly sensitive;
 - (f) certification that the rules in determination of the valuation of liabilities has been complied with, and if any other alternative method is adopted other than the one prescribed in these Rules, the reasons for same and certify that the value of liabilities determined from the alternative method shall not be less than the value of the liabilities obtained as per the prescribed rules;

- (g) a detailed description of the method of valuation of the liabilities used, if different from these Rules;
- (h) the level of the bonus smoothing reserves on any smoothed bonus business and, where this figure is negative, the actions that will be taken to return this to a non-negative figure, within three years;
- (i) with regards to participating policies, the non-maintenance of last declared bonus rates for all future years, if any, and the details of the expected reductions for all future years in the bonus rates assumptions;
- (j) the assumptions and methodology used to calculate the value of assets for all classes of investment;
- (k) certification that the rules in determination of the solvency margin and the minimum capital requirement have been complied with;
- (l) certification that the rules and determination of the valuation of assets has been complied with and the reasons, if any, of the difference between the value of asset used to calculate solvency as per these rules and the value of assets as shown in published financial statements;
- (m) comment on the changes in methodology and assumptions since the previous reports and its impact on the final results;
- (n) a brief summary of the reinsurance arrangements of the insurer including the impact on liabilities and the appropriateness of these arrangements, given the nature of the risks;
- (o) comments on any material changes in reinsurance arrangement since the previous report and discuss the credit risk and concentration risk with respect to the reinsurance arrangements and the ability of the insurer to meet its obligations taking into consideration these risks;
- (p) a detailed analysis of surplus dealing with all the relevant parameters, emerging over the period since the previous report;
- (q) a brief summary of new products launched during the period since the previous valuation or where existing products have been materially changed;
- (r) a risk assessment of the insurer, including the measures in place to address these risks;
- (s) any areas of non-compliance with any provisions of the Act, these rules or guidelines issued by the Commission;

- (t) a list of assets backing the liabilities, together with the duration of the assets and liabilities for non-linked long term contracts, linked long term contracts, and shareholders' fund;
- (u) a statement on the appropriateness of the assets relative to the liabilities and the degree of matching;
- (v) the extent to which the actuary has relied on the Professional Conduct Standards and Guidance Notes issued by his profession;
- (w) the extent to which the actuary has relied on the work of other professionals.

Valuation of Liabilities for Policy Benefits

- 9.** (1) The insurer shall modify the best estimate assumptions by the prescribed margins as per the First Schedule, provided that an assumption shall be increased or decreased depending on which alternative gives rise to an increase in the liability of the class of policies concerned.
- (2) The prescribed minimum margins shall apply throughout the lifetime of the policies.
- (3) In addition to the margins as per the First Schedule, additional discretionary margins may be included depending on the degree of confidence in the expected level of parameters after allocating for the prescribed margins.
- (4) These additional discretionary margins shall be defined, quantified and the reason for the existence of the additional discretionary margins as well as their broad financial effect on earnings shall be disclosed in the report of the actuary submitted to the Commission.
- 10.** (1) The actuary, shall when determining the liability in respect of linked long term policies ensure that it shall not be less than the sum of the underwriting liability and the policy accumulation fund, including any bonus stabilisation reserve, where applicable, in respect of those contracts.
- (2) The value of underwriting liabilities shall be determined by discounting the expected future experience in respect of -
- (a) basic benefits such as mortality, morbidity, surrender and maturity including prescribed margins and discretionary margins, if any; and
 - (b) future commissions, expenses and expense inflation, including prescribed margins and discretionary margins, if any ; and
 - (c) the future cost of any guarantees that have been given under the contract, less future expense deductions, risk benefit premiums and management fees to be levied.

Valuation of Assets

- 11.** (1) An insurer shall for the purposes of calculating the minimum capital requirement under these Rules, value its assets at fair value.
- (2) "fair value" means the value of assets for the purpose of determining the solvency margin and minimum capital requirement under these rules -
- (a) in the case of an asset which is listed on the Official List of a licensed stock exchange and for which a price was quoted on that stock exchange on the date as at which the value is calculated, the price last so quoted;
 - (b) in any other case, the price which could have been obtained upon a sale of the asset between a willing buyer and a willing seller dealing at arm's length, as estimated by the insurer;
 - (c) the estimate of the Commission, where the Commission suspects market abuses under sub-paragraph (a), or where the Commission is not satisfied with the estimate under sub-paragraph (b).

Investment Concentration Limit

- 12.** (1) An insurer shall –
- (a) set out in writing, as part of its overall prudent portfolio investment policy, internal policies on investment concentration;
 - (b) also have in place management information and control systems necessary to give effect to its written policies.
- (2) The aggregate value of investments as reported on the balance sheet by an insurer in any corporation, commodity or group of related corporations, except property, whose shares are listed on a licensed exchange in Mauritius or listed on such exchanges as are specified in the Second Schedule, shall not exceed 10 per cent of the assets of the insurer.
- (3) The aggregate value of investments as reported on the balance sheet by an insurer in any corporation, commodity or group of related corporations, except property, whose shares are other than shares described in paragraph (2) above, shall not exceed 5 per cent of the assets of the insurer.
- (4) An insurer may invest up to 10% of its assets in any property.
- (5) When an insurer and its related company, other than a long term insurance company, make an investment in any corporation or commodity, the aggregate value of that investment in that corporation or commodity shall not exceed-

- (a) in the case of listed shares described in paragraph (2), 10 per cent of the assets of the insurer; and
 - (b) in the case of shares described in paragraph (3), 5 per cent of the assets of the insurer.
- (6) The aggregate value of investments of an insurer in one or more of its related companies shall not exceed 10 per cent of the assets of the insurer.
- (6A) Any insurer who does not meet the requirements of paragraph (6), shall take such measures as may be necessary to comply with the provisions thereof by 30th June 2014.
- (6B) Any insurer who is unable to comply with paragraph (6A) may apply to the Commission for an extension of the deadline referred to in paragraph (6A).
- (6C) Where the Commission is satisfied that the non-compliance referred to in paragraph (6B), is due to a just or reasonable cause, it may extend the deadline referred to in paragraph (6A) for a period not exceeding 6 months, on such conditions as it deems fit.
- (7) When an insurer is a branch of a foreign company-
 - (a) the aggregate value of investments reported in its balance sheet in any corporation, commodity or group of related corporations, except property, whose shares are listed on a licensed exchange in Mauritius or listed on such exchanges as are specified in the Second Schedule, shall not exceed 10 per cent of the assets of the insurer;
 - (b) the aggregate value of investments reported in its balance sheet in any corporation, commodity or group of related corporations, except property, whose shares are other than shares described in sub-paragraph (a), shall not exceed 5 per cent of the assets of the insurer.
- (8) The branch of a foreign company shall not invest more than 10% of its assets in any property. Property includes direct investment in Investment Properties, mortgages and Land and Building for insurer's own use.
- (9) For the purpose of statutory solvency method, the value of assets representing the liabilities of non-linked policies will only be taken into account of up to the limits prescribed in these rules.
- (10) "Assets of the insurer" for the purposes of this rule shall not include assets backing linked long term insurance business and structured investment-linked insurance business.

- (11) This rule shall not apply to an investment in a collective investment scheme and investment held with a custodian in respect of structured investment-linked insurance policies.
- (12) For the purposes of this rule, “investment” means any kind of investment including investment in the form of receivables, deposits or loans.

Amended by [GN No. 112 of 2013], [GN No. 238 of 2022]

Minimum Capital Requirement

- 13.** (1) An insurer shall maintain at all times a solvency margin that is at least equal to the minimum capital requirement.
- (2) The minimum capital requirement for an insurer shall be determined by its actuary, when reporting in terms of the Act, as the higher of -
 - (a) a stress test requirement determined in accordance with guidelines issued by the Commission to ensure that the long-term insurer remains solvent; or
 - (b) the higher of-
 - (i) an amount of Rs. 25 Million; or
 - (ii) an amount representing 13 weeks’ operating expenses, with operating expenses as defined and reported in the annual statutory return submitted to the Commission.
- (3) The minimum capital requirement of any overseas branch business shall be added to the insurer’s minimum capital requirement calculation.
- (4) The minimum capital requirement shall be the higher of –
 - (a) the requirement as calculated in accordance with these rules; and
 - (b) the requirement as prescribed by the relevant supervisory authority in the country that the branch is approved to operate in.
- 14.** These Rules shall be deemed to have come into operation on 28 September 2007.

Made by the Financial Services Commission on 28 September 2007

FIRST SCHEDULE (rules 7 and 9)

<u>Risk or service</u>	<u>Prescribed margin as % of the base assumption</u>
Mortality	10% (increase for assurance, decrease for annuities)
Morbidity	10%
Health events	15%
Lapses	25% (i.e. if the best-estimate assumption is x%, the margin is 0.25x%)
Interest rate	10%
Termination of disability income benefits in payment	10% of claims reserves
Surrenders	10% (increase or decrease in surrender rate depending on which alternative gives rise to an increase in the liability of the policy concerned)
Expenses	10%
Expense inflation	10% (of the estimated escalation rate)
Charges under linked long term Contracts	A reduction of 0.25 percentage points

SECOND SCHEDULE

(rule 12)

Exchanges which are members of the World Federation of Exchanges.