



## **INSTRUCTION NO. 18/2022**

### **ON THE REQUIREMENTS OF ACTUARIAL FUNCTION AND DESIGNATION OF THE APPOINTED ACTUARY<sup>1</sup>**

For the purpose of maintain proper oversight on the risk management systems and internal control by the Board of Directors of the life insurance and certain general insurances companies and to fulfil its tasks relating to its actuarial matters, it is necessary to set the minimum standards for the rules and regulations governing the scope of the actuarial function and the designation of the Appointed Actuary of those companies.

The Banco Central de Timor-Leste recognizes the great importance to the actuarial function for life insurance and certain general insurances companies as it is one of the key controls serving the purpose of evaluating and providing advice to the insurance company regarding technical reserves, and in matters related to premiums and pricing activities, and compliance with statutory and regulatory requirements.

According to Article 33 paragraph 1 (h) and 36 paragraph 2 of Law no. 6/2005 of 7 July on Regime for the Licensing, Supervision and Regulation of Insurance Companies and Insurance Intermediaries (Insurance Law), the modification and designation of the insurance company's auditor or actuary are subject to the written authorization of the Banco Central de Timor-Leste.

Therefore, this Instruction sets forth the minimum standards and measures for the actuarial function and the requirements to be observed in the designation of the Appointed Actuary by the life and certain general insurances companies.

The Governing Board of Banco Central de Timor-Leste, pursuant to the authority granted in Article 31 paragraph 1 of Law no. 5/2011 of 15 June, and in Articles 3 and 4 of Law no. 6/2005 of 7 July, hereby resolves to approve the following Instruction:

#### **Article 1 Applicability**

1. This Instruction applies to all life insurance companies licensed by BCTL to undertake the insurance activity in Timor-Leste.
2. This instruction shall also apply to General Insurance companies that underwrite the insurance policies for property and liability as described on the annex 1 of this Instruction.

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<sup>1</sup> Please refer to the Portuguese version for official use. This English version is prepared to facilitate the availability of information for the financial institutions.

## **Article 2**

### **Definition**

In this Instruction the terms below shall have the following meaning:

- a) “Actuary” is a professional who specialises in the field of analysing financial risks by implementing statistical, financial and mathematical theories. In insurance, actuaries aid in assessing risks which help companies in the estimation of premiums for their policies.
- b) The appointed actuary is an actuary appointed by an insurance company, whose main role is to carry out a regular valuation of the reserves held to pay future policy benefits.
- c) “Board of Directors” refers to the panel of individuals elected by the shareholders to ensure the management of the insurance company within the legal applicable terms;
- d) “Control Functions” refers to properly authorized functions, whether in the form of a person, unit or department, serving a control or checks and balances function from a governance standpoint and which carry out specific activities including risk management, compliance, actuarial matters and internal audit;
- e) “Corporate Governance” comprises systems (such as structures, policies and processes) through which an insurance company is managed and controlled;
- f) “Internal Controls” refers to various operational procedures by which an insurance company maintains compliance with Board of Directors policies. Such procedures include the regular reporting of key financial data, the adherence to tolerance limits and the use of feedback loops. The internal controls should address checks and balances, such as cross checking, dual control of assets and double signatures;
- g) “Key Persons” refers to persons responsible for heading control functions;
- h) “Risk Management” refers to the process whereby the insurance company’s management takes action to assess and control the impact of past and potential future events that could be detrimental to the insurance company. These events can impact both the assets and the liabilities of the insurance company’s balance sheet, and the insurance company’s cash flow;
- i) “Senior Management” refers to the individuals or body responsible for managing the business on a day-to-day basis in accordance with strategies, policies and procedures set out by the Board;
- j) “Solvency” refers to the ability of an insurance company to meet its obligations to policyholders when they fall due. Solvency indicates capacity adequacy but also involves other aspects of a solvency regime, for example, technical reserves;
- k) “Stakeholders” include individuals, groups or organizations that have interest or concern in the insurance company’s business, as its shareholders, employees, creditors, suppliers and the own community; and
- l) “Suitability” refers to necessary qualities that must be exhibited by a person performing the duties and carrying out the responsibilities of his/her position with an insurance company. Depending on his/her position or legal form, these qualities could relate to a

proper degree of integrity, personal behavior and business conduction, soundness of judgment, degree of knowledge, experience and professional qualification and financial soundness.

### **Article 3**

#### **Objective of the Actuarial Function**

1. The objective of the actuarial function is to enable the insurance company to carry out such activities as are needed to evaluate and provide advice to the insurance company in respect of technical reserves, premiums and pricing activities and compliance with related statutory and regulatory requirements.
2. The actuarial function evaluates and provides advice on matters such as:
  - a) the insurance company's actuarial and financial risks;
  - b) the insurance company's investment policies and the valuation of assets;
  - c) an insurance company's solvency position, including a calculation of minimum capital required for regulatory purposes and liability for loss reserves;
  - d) an insurance company's prospective solvency position;
  - e) risk assessment and management policies and controls relevant to actuarial matters or the financial condition of the insurance company;
  - f) distribution of policy dividends or other benefits;
  - g) risk underwriting policies;
  - h) reinsurance arrangements;
  - i) product development and design, including the terms and conditions of insurance contracts;
  - j) the sufficiency and quality of data used in the calculation of technical reserves; and
  - k) risk modeling for the insurance company risk management and solvency purposes.

### **Article 4**

#### **Actuarial Reports**

1. The actuarial function should have access to and periodically report to the Board of Directors (hereinafter the "Board") on matters such as:
  - a) any circumstance that may have a material effect on the life insurance company from an actuarial perspective;
  - b) the adequacy of the technical reserves and other liabilities;
  - c) the prospective solvency position of the insurance companies to which this Instruction applies to; and
  - d) any other matters as determined by the Board.
2. Written reports on actuarial evaluations should be made to the Board, Management or

other Key Persons, and to the BCTL.

3. Apart from the above, BCTL may also request, from time to time, for certifications on the adequacy, reasonableness and/or fairness of premiums (or the methodology to determine the same) and certificates or statements of actuarial opinion.
4. All life insurance companies to which this Instruction applies to shall submit an actuarial valuation report at least annually to BCTL no later than four months from the end of its financial year.
5. In such case, the BCTL may clearly define when such certificates or statements of actuarial opinion need to be submitted and shall clearly define both the qualifications of those permitted to certify or sign such statements and the minimum contents of such an opinion or certificate.

#### **Article 5**

##### **Designation of the Appointed Actuary**

1. All insurance companies to which this Instruction applies to are required to have a robust actuarial function that is well positioned, resourced and staffed, which is essential for the proper operation of the entity.
2. All authorized insurance companies to which this Instruction applies to are required to designate an actuary and submit the appointment of the Actuary to the BCTL for the approval, including information but not limited, to the role and duties, the professional qualifications and the relevant working experience of the Appointed Actuary within one month following the designation by the Board.

#### **Article 6**

##### **Professional Experience for the Appointed Actuary**

1. The Appointed Actuary should have relevant working experience in correspondent insurance business of not less than three years, consecutive or interpolated, and should also be familiar with the situation of Timor-Leste, particularly the legal, regulatory, judicial and social trends in Timor-Leste relating to the carrying on the actuarial function.
2. The Appointed Actuary should comply with the Fit and Proper requirements as set out by BCTL.
3. The Appointed Actuary should meet the relevant requirements for the continuing professional development for the actuaries.

#### **Article 7**

##### **Assessment Criteria for the Suitability of the Appointed Actuary**

1. When assesses the suitability of the candidate for the Appointed Actuary, the Board of the insurance company must be satisfied that he/she has:
  - a) adequate technical experience (which includes the use of advanced analytics) and has had key responsibilities in performing valuations of actuarial liabilities for the correspondent insurance business;
  - b) continuously be informed on emerging developments in the correspondent insurance business and actuarial practice which are relevant to the duties of an

Appointed Actuary;

- c) adequate experience in engaging with the members of the Board, Senior Management and Key Persons, in particular the ability to communicate and contextualize the results of technical actuarial assessments in a clear and comprehensive manner to key stakeholders who may not have an actuarial background;
  - d) a good professional track record;
  - e) not been the subject of findings of a material contravention of the standards of any actuarial association body or any law or regulation relating to actuarial conduct; and
  - f) no conflict of interest that would impair his/her ability to effectively discharge his/her duties as an Appointed Actuary.
2. For the purposes of paragraph 1 f), the candidate for the Appointed Actuary with multiple statutory appointments (i.e. part of the group actuarial resources) must disclose any potential conflict of interests to the Board prior to the designation, as it is imperative that the Appointed Actuary must exercise professional accountability and impartiality in providing the actuarial services to an insurance company at all times.
  3. If the Appointed Actuary is not an employee of the insurance company, the Board should determine whether the external actuary has any potential conflict of interests, such as if his/her firm also provides auditing services to the insurance company, and if any such conflict exists, the Board should subject them to appropriate controls or order other arrangements.

## **Article 8**

### **Resignation or Replacement of the Appointed Actuary**

1. If an Appointed Actuary resigns or is replaced, the insurance company should notify the BCTL within one month following the resignation or replacement giving reasons for the resignation or replacement.
2. Such notification shall include a statement from the insurance company of whether there were any disagreements with the former Appointed Actuary over the content of the actuary's opinion on matters of risk management, required disclosures, scopes, procedures or data quality, and whether (or not) such disagreements were resolved to the former Appointed Actuary's satisfaction.
3. Additionally, after the appointment of a new Appointed Actuary, the life insurance company is also required to notify the BCTL within one month following the appointment.
4. All insurance companies to which this Instruction applies to shall replace an Appointed Actuary when such person fails to adequately perform required functions or duties, is subject to conflict of interests or no longer meets the BCTL's eligibility requirements.
5. All life insurance companies to which this Instruction applies to shall replace an Appointed Actuary if any of the following situations of serious fault occurs in the carrying on the actuarial function:
  - a) intentional inclusion of false statements or information in the certificates,

declarations and/or reports prepared by the Appointed Actuary;

- b) intentional omission or inaccuracy in reports which hinder or render useless the actuarial function; and
- c) repeated errors in the elaboration of reports, as a result of proven negligence, non-compliance with legal provisions or regulations, or with general actuarial principles or standards of actuarial practice applicable to Timor-Leste from time to time.

## **Article 9**

### **Duties and Responsibilities of the Appointed Actuary**

1. The Appointed Actuary must:
  - a) certify that the valuation of actuarial liabilities from life insurance policies is in accordance with the generally accepted actuarial principles and practices, and the valuation principles, methods and assumptions set out in the relevant Instruction of BCTL;
  - b) provide recommendations to the Board on the appropriateness of surplus distribution to policyholders, as well as any relevant distribution to shareholders; and
  - c) apply the appropriate tests to reasonably satisfy himself/herself of the completeness and accuracy of the current database of business used to perform his/her duties.
2. The report by the Appointed Actuary to the Board and Senior Management on the matters covered in the preceding paragraph must include:
  - a) a narrative of findings;
  - b) recommendations and conclusions; and
  - c) the basis for those conclusions.
3. Such report must be presented in a manner which clearly explains and gives sufficient prominence to significant issues and developments which have material implications on the insurance liability valuations or technical reserves of the life insurance company, or the interests of its clients.
4. The Appointed Actuary must be available to respond, directly and in a timely fashion, to any questions or issues raised by the Board in relation to his/her report.
5. In relation to paragraph 1 a), the report by the Appointed Actuary must draw the attention of the Board to the following:
  - a) key trends in the business composition, the portfolio's experience for each relevant insurance product and movements in the technical reserves for actuarial and other policy liabilities;
  - b) any material changes in selected assumptions;
  - c) reasons for any deviation from the assumptions implied by the experience analysis;
  - d) key assumptions in which small changes can cause significant variations in the valuation results; and

- e) significant observations resulting from the analysis of the experience and composition of surplus arising.
- 6. The Appointed Actuary must take appropriate steps to effectively engage the Board and Senior Management on the results of his/her investigations into the insurance company's current and expected future financial condition, presenting clearly to the Board the plausible identified threats to such financial condition, recommendations to address those threats and observed actions of the Senior Management in response to the recommendations made in the previous year.
- 7. In relation to paragraph 1 b), prior to making any recommendations for surplus or investment income distribution, the Appointed Actuary must consider and be satisfied that:
  - a) the proposed distributions among the different groups of policyholders are equitable and are consistent with the reasonable expectations of the policyholders;
  - b) the proposed bonus distributions are sustainable, taking into account the current and future needs of the insurance company's operations under a range of circumstances; and
  - c) there has been proper management of participating policy business.
- 8. The Appointed Actuary must keep adequate documentation of his/her work to facilitate continuity such any party reviewing the Appointed Actuary's work would be able to understand his/her findings, recommendations and conclusions, providing sufficient detail on:
  - a) his/her engagements, whether written or verbal, with the stakeholders;
  - b) the activities carried out as part of his/her duties, including processes relating to the certification of the valuation of liabilities and recommendations on the distribution of surplus or investment income; and
  - c) the methodology employed to verify the accuracy of data used in performing his/her duties.

## **Article 10**

### **Board Oversight over the Appointed Actuary**

- 1. The Board must ensure that the duties of the Appointed Actuary are carried out without any hindrance.
- 2. To achieve this, some arrangements should be in place to:
  - a) provide the Appointed Actuary with direct access to the Board;
  - b) keep the Appointed Actuary informed about the insurance company's plans;
  - c) ensure that the Appointed Actuary is provided with sufficient resources to effectively discharge his/her duties, including sufficient human resources, as well as information technology and other appropriate systems;
  - d) provide the Appointed Actuary with full access rights to relevant records, accounts and any other information of the insurance company; and
  - e) enable the Appointed Actuary to request and receive information or explanation

from the Senior Management and Key Persons of the life insurance company as necessary.

3. Where the Appointed Actuary is assigned any other roles, the Board must be satisfied that there will be no conflict of interests, for which his/her role must be distinct from other executive functions and business line responsibilities, meaning that the Appointed Actuary's role must not be combined with other executive functions (i.e. "dual hatting") and, in addition, the Appointed Actuary must not have any management or financial responsibility in respect of business lines or revenue-generating functions.
4. The Board is required to review in detail the reports submitted to it by the Appointed Actuary. at a sufficiently granular level that enables the Board to form a well-founded view as to whether:
  - a) adequate technical reserves have been made to meet the insurance company's obligations under policies which it has issued;
  - b) any major risks or concerns exist that may affect the insurance company relating to the insurance liability valuation and technical reserves;
  - c) business decisions taken or planned to be taken need to be reviewed in light of limitations and alternative conclusions highlighted by the Appointed Actuary; and
  - d) corrective actions recommended by the Appointed Actuary have been implemented adequately.

#### **Article 11** **Entry into Force**

This instruction shall come into force on the subsequent day of its publication on the Jornal da República.

Approved on 30 June 2022

Governor

**Abraão de Vasconcelos**



# ANNEX 1: LIST OF PROPERTY INSURANCE AND LIABILITY INSURANCE

| TERMS AND INSURANCE POLICIES |                     |  | DEFINITION   |
|------------------------------|---------------------|--|--|
| 1                            | Property insurance  | <ul style="list-style-type: none"> <li>a) Fire insurance</li> <li>b) Consequential loss insurance (or business interruption insurance);</li> <li>c) Industrial all risk insurance/industry special risk insurance</li> <li>d) Equipment all risk insurance</li> <li>e) Or any policy by any other name whereby the subject of the policy is to protect against loss or damage to the insured's property</li> </ul> | <ul style="list-style-type: none"> <li>a) Property insurance: financial protection against the risk of damage or loss to property. This insurance can include coverage against a multitude of perils, e.g. "all-risks" or any one of a combination of risks such as fire, ice build-up, theft, flood, earthquakes, wind damage, e.g. tornadoes, hurricanes, as well as due to vandalism.</li> <li>b) Property third party liability insurance: financial protection against incurring liability arising from the risk of another person sustaining injury or death in a defined property.</li> </ul> |
| 2                            | Liability Insurance | <ul style="list-style-type: none"> <li>a) Public liability insurance</li> <li>b) Product liability insurance</li> <li>c) Employers liability insurance/ workmen's' compensation insurance</li> <li>d) Professional liability insurance</li> <li>e) Or any policy by any other name whereby the subject of the policy is to protect the insured against third parties</li> </ul>                                    | <ul style="list-style-type: none"> <li>a) Worker Compensation Insurance: financial protection against the cost of compensation prescribed by statute for bodily injury, disability or death of a worker through accident or disease arising out of or in the course of his employments.</li> <li>b) Employers Liability Insurance: financial protection against loss to an employer through liability for accidental injury to or death of an employee arising out of or in the course of this employment but does not include worker compensation insurance.</li> </ul>                             |