

## **GUERNSEY FINANCIAL SERVICES COMMISSION**

### **EXPLANATORY NOTE RELATING TO ANNUAL RETURNS FOR INTERNATIONAL INSURERS (NON-LIFE)**

The preparation of Annual Returns by licensed insurers is a requirement of Section 33 of The Insurance Business (Bailiwick of Guernsey) Law, 2002, as amended (“the Law”). The submission of Annual Returns to the Commission is a requirement of Section 37 of the Law and The Insurance Business (Annual Return) Regulations, 2008 and, in accordance with Section 29(2) of the Law, is the responsibility of the General Representative. The Annual Return should be submitted within four months of the licensed insurer’s financial year end.

This explanatory note should be read in conjunction with the ‘Annual Return Checklist for International Insurers (Non-Life)’, which can be found in the ‘Documents and Forms’ section of the Commission’s website, and is intended to provide further guidance on the information to be submitted to the Commission by international insurers writing non-life business.

#### **Signed audited financial statements**

The Commission requires an original signed copy of the audited financial statements for the licensed insurer to be submitted as part of the annual return. Where the licensed insurer itself has one or more subsidiaries, separate signed financial statements should also be submitted for each subsidiary that has a material impact on the operations of the licensed insurer.

#### **Cellular management accounts (for Protected Cell Companies (‘PCCs’) only)**

Management accounts should be submitted for all PCCs with one or more active cells, to enable reconciliation between the cells, the core and the audited financial statements.

#### **Business plan**

For licensed insurers actively writing new business, a prospective business plan, in both spreadsheet and narrative format, should be submitted. For PCCs, these business plans should be submitted for the core, where applicable, and each active cell.

##### *Spreadsheet business plan*

This should be completed using the standard template entitled ‘Business Plan’, which can be found in the ‘Documents and Forms’ section of the Commission’s website. The spreadsheet business plan should relate to the following financial year. Where renewal terms have not yet been finalised, a best estimate should be used.

Attention will be paid to the funding of net exposures and whether any residual risk gaps or material increases in exposures have been agreed with the Commission.

### *Narrative business plan, including a summary of the reinsurance programme*

The accompanying narrative business plan should describe in adequate detail the prospective programme, and may be used to further explain information included on the spreadsheet business plan. As a minimum, the narrative business plan should include details of:

- all policies written, including limits
- reinsurance arrangements, including details of the reinsurers, security ratings and attachment points
- significant changes in gross premiums, reinsurance premiums and net aggregate exposures from the prior year

Please note that the more detailed the information provided, the more efficient the review process and follow-up correspondence will be.

### *Any other material factors*

Any other material factors which may affect the future business plan of the licensed insurer should be noted. These could include, for example, a planned takeover or merger of the parent, a planned novation or commutation, or relevant comments where a parent is experiencing financial difficulty.

### **Margin of solvency and approved asset calculation**

This should be completed using the standard template entitled 'Solvency Summary Spreadsheet- General Business', which can be found in the 'Documents and Forms' section of the Commission's website. Please refer to the 'Explanatory Note Relating to the General Business Solvency Summary Spreadsheet' included in the 'Documents and Forms' section of the Commission's website for further information on how to complete this template.

For PCCs, solvency calculations are required on a cellular basis. Please refer to the document entitled 'Solvency requirements for PCCs and cells writing general business' which can be found in the 'Legislation and Guidance' section of the Commission's website for further details.

### **Declaration of reliance on reinsurers**

This declaration should be completed by all licensees with reinsurance arrangements in place or where receivables from previous reinsurance arrangements remain outstanding. Where the aggregate receivable from a reinsurer at the licensee's financial year end, whether directly or indirectly (including all companies within the same group), exceeds 10% of shareholders funds, then the details of that reinsurer are required. Should no reinsurer fall into this category, the declaration should be completed to this effect. If any provisions have been made against irrecoverable reinsurance balances or any reinsurance recoverables have been written off, details of these amounts should be provided separately.

This declaration should be completed using the standard template entitled 'Declaration of Reliance on Reinsurers', which can be found in the 'Documents and

Forms' section of the Commission's website. For PCCs, a separate declaration should be completed for each cell if applicable.

### **Auditor's management letter**

A copy of the auditor's management letter should be submitted, or a statement made by the General Representative that no management letter is required. Where the General Representative makes such a statement, prior confirmation of this should be obtained from the auditors. This statement may be made by way of separate declaration or within a covering letter, provided that it is signed by the General Representative (or authorised signatory). It is not considered adequate simply for 'N/A' to be annotated on the Annual Return checklist to comply with the above.

### **Summary of the extent of adherence to the Corporate Governance principles**

In accordance with Section 1(d) of the Licensed Insurers' Corporate Governance Code, all licensed insurers are required to submit a summary of the extent of adherence to the corporate governance principles set out in the Code which have been adopted by the Board of Directors. The Commission has prepared a checklist to assist licensed insurers in complying with this requirement. Although the use of this checklist is not mandatory, licensed insurers are strongly encouraged to use it to minimise further questions when the annual returns are reviewed. This checklist, entitled 'Corporate Governance Code Checklist', can be found in the 'Documents and Forms' section of the Commission's website.

### **Declaration by the General Representative**

This declaration should be made using the standard template entitled 'Declaration by the General Representative', which can be found in the 'Documents and Forms' section of the Commission's website. Where the Insurance Manager is the General Representative, the declaration should be signed by an authorised signatory.

### **Explanation of how insurance reserves (technical provisions) are calculated**

In accordance with paragraph 1(g) of The Insurance Business (Annual Return) Regulations, 2008, licensed insurers are required to submit a note explaining how the insurance reserves are calculated. In addition, they are required to ensure that any actuarial reports used for this purpose should be prepared in accordance with the standards set by the Commission.

In order to comply with this requirement, a summary should be provided of the methodology used to calculate insurance reserves, including reserves for claims incurred but not reported or insufficiently reported and outstanding claim reserves. Where actuarial advice has been obtained regarding the level of reserves, copies of the actuarial reports used for that purpose should also be provided to the Commission. Any such actuarial reports should be prepared:

- i) by a member (or members) of a recognised actuarial body that is a full member of the International Actuarial Association (IAA), unless otherwise agreed in writing by the Commission; and

- ii) in accordance with appropriate actuarial standards, including Guidance Notes issued by the United Kingdom Board for Actuarial Standards, Actuarial Standards of Practice issued by the US Actuarial Standards Board and International Standards of Practice issued by the IAA, or any other appropriate actuarial standards as agreed in writing by the Commission.

### **Summary of claims paid and outstanding**

The summary of claims paid and outstanding should include, where relevant, a reconciliation of the movement in claims reserves over the financial period, by class of business. For PCCs, this information should be provided for the core, where applicable, and each active cell.

### **Schedule of bank deposits and investments, broken down by asset class**

The schedule of bank deposits and investments should agree to the financial statements and should include, where relevant:

- details of the country in which these deposits and investments are held
- details of who manages these investments
- details of the respective ratings for each investment and a breakdown by asset class to enable this information to be reconciled to the regulatory balance sheet

For PCCs, this information should be provided for the core, where applicable, and each active cell.

### **Own Solvency Capital Assessment (OSCA)**

Details should be provided of the licensed insurer's OSCA. The requirements in respect of the calculation and submission of the OSCA are included in the 'Guidance Note on Licensed Insurers' Own Risk and Solvency Assessment', which can be found in the 'Legislation and Guidance' section of the Commission's website.

### **Additional financial information**

Any additional financial information which may help to explain the financial results or year end account balances should be provided, where relevant, including:

- analysis of debtor and creditor balances
- financial statements in respect of significant investments
- financial statements of parent/group companies where significant balances are due to the licensee from within the group

*Please note that this explanatory note does not take the place of the Law, Regulations, Rules and Codes, and if there is any conflict between the two, the Law, Regulations, Rules and Codes will always take precedence.*