

GUERNSEY FINANCIAL SERVICES COMMISSION

EXPLANATORY NOTE RELATING TO ANNUAL RETURNS FOR INTERNATIONAL INSURERS (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 (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 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)

Unless otherwise agreed with the Commission, 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, the following information should be submitted:

Summary of products to be offered

This should include details of the products currently being marketed by the licensed insurer.

Summary of markets in which products are to be offered

This should include details of the markets in which the above products are being offered.

Three-year financial projections

Financial projections showing the anticipated operations of the licensed insurer for the three years following the financial year end to which the annual return relates should be submitted. The projections should include, but not be limited to, expected premium volumes by product type, sums assured at risk, reinsurance arrangements, including details of the reinsurers and related reinsurance security, capital requirements and details of the operation of the policyholder protection arrangements.

Any other material factors

Any other material factors which may be relevant to the regulation of the licensed insurer in the three years following the financial year end to which the annual return relates should be noted.

Annual declaration by the Actuary

For licensed insurers actively writing new business, an annual declaration should be made by the Actuary stating that he or she has approved the product literature, policy documentation and policy pricing and that he or she has taken account of policyholders' reasonable expectations. This declaration should be completed using the standard template entitled 'Actuary's Declaration to Accompany the Company's Annual Return', which can be found in the 'Documents and Forms' section of the Commission's website.

Actuarial valuation report

An actuarial valuation prepared by the Actuary should be submitted which includes details of the policies issued and a statement of the business in force, a summary of the assets, details of the reinsurance arrangements, any relevant claims or persistency experience, the valuation methodology, basis and result, details of asset and liability matching and any resilience reserves required, and details of how the solvency margin requirement is met. Please refer to the 'Guidance Note on Actuarial Valuations' included in the 'Legislation and Guidance' section of the Commission's website for further explanation of these requirements.

Margin of solvency and approved asset calculation

This should be completed using the standard template entitled 'Solvency Summary Spreadsheet- Life Business', which can be found in the 'Documents and Forms' section of the Commission's website.

Declaration of reliance on reinsurers

This declaration should be completed by all licensed insurers 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.

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.

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

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. Such information might include:

- 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.