

‘Approved’
Central Bank of
the Republic of Azerbaijan
Resolution № 63/3
27 December 2023

Regulation on the content, form, and submission of the actuarial opinion

1. General provisions

This Regulation has been developed in accordance with Article 81-6.6 of the Law of the Republic of Azerbaijan ‘on Insurance activity’ (hereinafter – the Law) and determines the procedure for the content, form and submission of the actuarial opinion.

2. Definitions

2.1. Definitions used for the purposes of this Regulation bear the following meanings:

2.1.1. reporting date – the day of the end of the relevant quarter or the calendar year.

2.1.2. reporting period – 12 (twelve) months prior to the reporting date.

2.1.3. active insurance types – insurance types for which insurance premiums have been calculated or insurance payments have been made during the reporting period.

2.1.4 main types of insurance – types of active insurance that have the largest weight in the insurance portfolio during the reporting period (calculating in relation to insurance premiums or insurance payments) and total weight of which makes up more than 80% of the entire insurance portfolio.

2.1.5. liability adequacy test – a method used to assess whether the carrying amount of a liability should be increased by analyzing future cash flows associated with the liability.

2.2. Other definitions used in this Regulation bear the meanings specified in the insurance legislation.

2.3. The definition ‘insurer’ used in this Regulation covers reinsurers as well.

3. The form of the actuarial opinion

The responsible actuary of the insurer draws up the actuarial opinion as per Annex 1 to this Regulation.

4. The content of the actuarial opinion

4.1. The actuarial opinion includes the following information in consideration of Part 5 of this Regulation:

4.1.1. Information on the responsible actuary:

4.1.1.1. last, first, middle names.

4.1.1.2. the registration number and expiry date of his/her actuarial certificate.

4.1.1.3. name of actuarial organizations or associations to which he/she is a member (if any).

4.1.2. General information:

4.1.2.1. place and date of the actuarial opinion.

4.1.2.2. reporting period covered by actuarial calculations.

4.1.3. Information on the insurer:

4.1.3.1. full name.

4.1.3.2. TIN.

4.1.3.3. legal and actual address.

4.1.3.4. number of the license authorizing to conduct insurance activity and, if available, reinsurance activity.

4.1.3.5. types of compulsory insurance permitted.

4.1.3.6. amount of authorized capital.

4.1.4. Information on actuarial calculations and results:

4.1.4.1. documents and information used:

4.1.4.1.1. a list of legal acts referred to during actuarial calculations, as well as information on methodological tools used, modeling principles and actuarial assumptions.

4.1.4.1.2. a list of documents and information obtained from the insurer, public authorities and other persons to develop an actuarial opinion.

4.1.4.1.3. If the insurer fails to provide any document or information necessary for formulating the actuarial opinion, or if it is discovered that such documents or information are intentionally concealed, the list of such documents or information on whether the responsible actuary reported to the Central Bank of the Republic of Azerbaijan (hereinafter - the Central Bank) in accordance with the Law.

4.1.4.1.4. information on the assessment of sufficiency, integrity and quality of the data used in actuarial calculations and the work conducted at the insurer during the year to improve them.

4.1.4.2. insurance premiums and insurance payments:

4.1.4.2.1. analysis of increase or decrease of insurance premiums and insurance payments for all insurance portfolios and main insurance types of the insurer as of the reporting date, comparing them with the same periods of previous years for at least recent 3 (three) years.

4.1.4.2.2. the analysis of concentration of insurance premiums for main types of insurance, expected and incurred losses, expected and incurred losses based on actuarial assumptions related to endowment life insurance and other insurance agreements concluded for a period of more than 3 (three) years across different segments (at least insurance risk, products, contractual years, public and non-public sectors, direct and insurance intermediaries, individual and group insurance agreements).

4.1.4.3. insurance reserves:

4.1.4.3.1. analysis of the increase or decrease of insurance reserves created by the insurer as of the reporting date, including each type of net insurance reserves, for at least recent 3 (three) years by comparing them with the same periods of previous years.

4.1.4.3.2. when insurance reserves are calculated based on the individual approach of the responsible actuary, the description and substantiation of the calculation methodology, as well as the information specified in sub-item 4.1.4.1.1 of this Regulation.

4.1.4.3.3. description and analysis of changes in insurer's insurance reserves during the quarter (on annual financial statements compared with the beginning of the current year) as per Annex 2 of this Regulation (tables are developed separately for general insurance reserves and for main types of insurance, while for other types of insurance they can be grouped by insurance types covering similar insurance risks).

4.1.4.3.4. detailed results of liability adequacy test considering the following, as well as comparison of insurance reserves and insurance payments for recent two reporting periods through that test and substantiation of the differences arising from the comparison:

4.1.4.3.4.1. writing a brief description of the testing methodology.

4.1.4.3.4.2. conducting the test separately by breaking down by each insurance reserve and currencies.

4.1.4.4. the underwriting and tariff policy:

4.1.4.4.1. assessment of the current situation during recent one year, indicating the cost of conducting the work specified in insurance rules for the types of insurance offered by the insurer, tariff profit and the final tariff interval.

4.1.4.4.2. analysis of inconsistencies between the tariff policy and the underwriting policy for the types of active insurance offered by the insurer.

4.1.4.4.3. the analysis of the loss rate for active insurance types compared to the previous reporting period (noting the effect of acquired reinsurance guarantees on this loss rate), brief information about the planned strategy against the change of the loss level and measures to be taken if necessary (this information is specified by the responsible actuary engaged in non-life insurance)

4.1.4.5. reinsurance operations:

4.1.4.5.1. analysis of compliance of the insurer's policy on reinsurance operations with the risks (risk profile) the insurer is exposed to and the underwriting policy, as well as with the 'Regulation on setting limits and requirements for reinsurance of risks with foreign insurers, as well as requirements for insurers' and reinsurers' reinsurance policies and reinsurance of catastrophic risks.

4.1.4.5.2. measurement of personal capacity per risk, substantiation of necessity of transfer on transferred reinsurance agreements by types of insurance, information on compatibility of risks guaranteed under accepted and transferred agreements with insured objects

4.1.4.6. asset and liability management:

4.1.4.6.1. explanation and substantiation of assumptions provided by the actuary responsible for asset and liability management (this information is recorded by the actuary responsible for life insurance).

4.1.4.6.2. extensive analysis of insurance (reinsurance) premiums to be received by the insurer (breaking down by '0-30 days', '31-45 days', '46-60 days', '61-90 days', 'more than 90 days' delinquencies) and assessment of their liquidity based on statistical data of at least recent 3 years.

4.1.4.6.3. calculation of the yield on the investment portfolio of endowment life insurance and the average annual interest rate on insurance agreements as per Annex 3 of this Regulation, as well as substantiation of the difference if the average annual interest rate on insurance agreements is greater than the yield on the investment portfolio (these data are provided by the responsible actuary engaged in life insurance).

4.1.4.6.4. analysis of compliance of the structure of insurer's liabilities across currencies with the corresponding structure of assets.

4.1.4.7. aggregate capital:

4.1.4.7.1. results of the assessment of the amount of aggregate capital of the insurer as of the reporting date compared with the beginning of the year, as well as the analysis of the dynamics of the increase or decrease of aggregate capital (with a detailed indication of the reasons for the increase or decrease).

4.1.4.7.2. information on the number, content, results of calculations conducted in interim periods to measure adequacy of aggregate capital of the insurer, and whether aggregate capital ratios are met, in case of occurrence of expenses related to payment of dividends, new insurance products, investment and management decisions considered significant by the responsible actuary, as well as expenses related to insurance (reinsurance) activities that lead to a decrease of more than 10% of aggregate capital and other expenses (e.g., expenses related to information technologies, marketing expenses, employee rewards, sponsorship, etc.).

4.1.4.8. additional information:

additional information that the responsible actuary wants to provide within the scope of its authority, not reflected in sub-items 4.1.4.1-4.1.4.7 of this Regulation.

4.1.5. Recommendations:

4.1.5.1. necessary recommendations on eliminating deficiencies discovered by the responsible actuary, improving the insurer's financial resilience and solvency, creating additional reserves.

4.1.5.2. a list of events that may have an adverse impact on financial resilience and solvency of the insurer, and recommendations for preventing those events.

4.1.5.3. detailed information on the insurer's implementation of the recommendations listed in the actuarial opinion for the previous reporting period.

4.2. Along with the information provided by this Regulation, tables, formulas, and other information reflecting other information may be added to the actuarial opinion.

4.3. The concentration measurement methodology outlined in sub-item 4.1.4.2.2 of this Regulation is established by the responsible actuary. If no methodology is specified by the responsible actuary, the Herfindahl-Hirschman Index (HHI) may be used as the methodology. According to this index, low-level concentration is $HHI < 1500$, medium-level concentration $1500 \leq HHI < 2500$, and high-level concentration $HHI \geq 2500$.

4.4. The liability adequacy test outlined in sub-item 4.1.4.3.4 of this Regulation can be conducted by grouping by types of insurance covering similar insurance risks with the substantiation by the responsible actuary.

5. Procedure for submission of the actuarial opinion

5.1. The actuarial opinion is submitted on a quarterly and annual basis, within 7 (seven) working days from the last date of submission of quarterly and annual reports by the insurer, considering the following:

5.1.1. the actuarial opinion submitted for the first quarter should at least include the information specified in sub-items 4.1.1-4.1.3, 4.1.4.1, 4.1.4.3.1-4.1.4.3.3, 4.1.4.4.3, 4.1.4.5.2, 4.1.4.6.2, 4.1.4.6.4, 4.1.4.7, 4.1.4.8 and 4.1.5 of this Regulation.

5.1.2. the actuarial opinion submitted for the second and third quarters, should at least include the information specified in sub-items 4.1.1-4.1.3, 4.1.4.1-4.1.4.5, 4.1.4.6.1, 4.1.4.6.2, 4.1.4.6.4, 4.1.4.7, 4.1.4.8 and 4.1.5 of this Regulation.

5.1.3. The actuarial opinion submitted on the fourth quarter and on an annual basis should include all the information specified in sub-items 4.1.1-4.1.5 of this Regulation.

5.2. If the Central Bank finds out instances that may lead to disruption of the insurer's financial resilience and deterioration of its solvency in connection with the discharge of the supervisory function in the insurance sector, the actuarial opinion is submitted to the Central Bank based on a written request within the period specified in that request.

5.3. The actuarial opinion should be approved by the enhanced electronic signature of the responsible actuary and submitted electronically through the information system of the Central Bank.

6. Final provisions

The actuarial opinion submitted for 2023 is not subject to the requirements of this Regulation.

THE FORM OF THE ACTUARIAL OPINION

1. Information on the responsible actuary:

- 1.1. Last, first, middle names:
- 1.2. The registration number and expiry date of his/her actuarial certificate:
- 1.3. The name of actuarial organizations or associations to which he/she is a member (if any):

2. General information:

- 2.1. The place and date of the actuarial opinion:
- 2.2. The reporting period covered by actuarial calculations:

3. Information on the insurer:

- 3.1. Full name:
- 3.2. TIN:
- 3.3. The legal and actual address:
- 3.4. The number of the license authorizing to conduct insurance activity and, if available, reinsurance activity:
- 3.4. Types of compulsory insurance permitted:
- 3.5. Amount of authorized capital:

4. Information on actuarial calculations and results:

- 4.1. Documents and information used:
- 4.2. Insurance premiums and insurance payments:
- 4.3. Insurance reserves:
- 4.4. The underwriting and tariff policy:
- 4.5. Reinsurance operations:
- 4.6. Asset-liability management:
- 4.7. Aggregate capital:
- 4.8. Additional information:

5. Recommendations:

500 001 AZN – 1 000 000 AZN								
Over 1 000 000 AZN								
In percent (every column is divided by Column 2)	100.00%							

Note:

1. The change in reserves should be calculated in the appropriate sequence according to the columns shown in the table.
2. The 'Other (inexplicable)' section should not exceed 3% of the insurance reserve on Column 2.
3. If the reserve changes for reasons other than those indicated in columns, the reason and amount of change are shown by adding a new column to relevant sections.

Description of the change in mathematical reserves on non-endowment life insurance

Change in mathematical reserves on non-endowment life insurance	Insurance reserve as of the early quarter (year)	The insurance portfolio as of the beginning of the quarter (year)				Effect of agreements newly included to the insurance portfolio	Other (inexplicable)	Insurance reserve as of the end-quarter (year)
		Effect of agreements leaving the insurance portfolio (expiry, occurrence of an insured event, termination, etc.)	Effect of the change to the calculation methodology	Effect of insurance premiums received (less commission)	Effect of the discount rate			
1	2	3	4	5	6	7	8	9
In amount								
In percent (every column is divided by Column 2)	100.00%							

Note:

1. The change in reserves should be calculated in the appropriate sequence according to the columns shown in the table.
2. The 'Other (inexplicable)' section should not exceed 3% of the insurance reserve on Column 2.
3. If the reserve changes for reasons other than those indicated in columns, the reason and amount of change are shown by adding a new column to relevant sections.

In percent (every column is divided by Column 2)	100.00%							
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Note:

1. The change in reserves should be calculated in the appropriate sequence according to the columns shown in the table.
2. The 'Other (inexplicable)' section should not exceed 3% of the insurance reserve on Column 2.
3. If the reserve changes for reasons other than those indicated in columns, the reason and amount of change are shown by adding a new column to relevant sections.

Description of the change in the loss reserve occurred but not reported (on the results obtained from the triangle method only)

Change in the loss reserve occurred but not reported	Insurance reserve as of the early quarter (year)	Effect of the change to the calculation methodology	Effect of the change of insurance premiums earned	Change in the expected ratio of incurred losses	Effect of change in reported but unadjusted loss reserve	Other (inexplicable)	Insurance reserve as of the end-quarter (year)
1	2	3	4	5	6	7	8
In amount							
In percent (every column is divided by Column 2)	100.00%						

Note:

1. The change in reserves should be calculated in the appropriate sequence according to the columns shown in the table.
2. The 'Other (inexplicable)' section should not exceed 3% of the insurance reserve on Column 2.
3. If the reserve changes for reasons other than those indicated in columns, the reason and amount of change are shown by adding a new column to relevant sections.

Calculation of the yield on investment portfolio:

Investment income as of the end-reporting period	Investment expense as of the end-reporting period	Investment portfolio as of the beginning of the reporting period*	Investment portfolio as of the end-reporting period*	Return on investment %
A	B	C	D	$F = (A-B)/((C+D)/2)$

Note: The investment portfolio is defined as the aggregate of funds from which investment income is generated.

The average annual interest rate of insurance reserves under insurance agreements is calculated as follows:

$$Q = \frac{\sum_{i=1}^n RE_i * Q_i}{\sum_{i=1}^n RE_i}$$

Where:

Q - the average annual interest rate of insurance reserves

RE_i - the mathematical reserve per valid agreement

Q_i - the annual interest rate per valid agreement