Circular Letter 21/19 of the Commissariat aux Assurances relative to the Annual Actuarial Report for non-life insurance companies domiciled in Luxembourg

Olivier Mahieux
Romain De Harlez

The Commissariat aux Assurances (CAA) recently published updated annual actuarial reporting requirements for non-life insurance companies domiciled in Luxembourg.[1] This briefing note discusses the main changes in the reporting requirements compared to the previous Circular Letter 12/4.

Introduction

With Solvency II reporting becoming routine for insurance companies, the CAA amended its Circular Letter 12/4 on actuarial reporting requirements for non-life insurance companies, to factor in the regulatory framework in-force.

The new Circular Letter 21/19 replaces 12/4 and is applicable for the annual actuarial reporting per year-end 2021, with a submission date to the CAA of 22 April 2022.

Structure of the Actuarial Report

The annual actuarial report for reporting to the CAA consists of two parts: Part 1 is a Microsoft Excel file questionnaire, and Part 2 is a paper report signed by the actuary providing further insight and background for the Excel questionnaire and its annexes.

The structure of the narrative report (Part 2) is set out in the Circular Letter as follows:

1. Actuary details
2. Certification of the technical provisions
3. Information on the reinsurance arrangements
4. Stress tests relating to deterioration of loss ratio
5. Other stress tests
6. Pricing

The annual actuarial report is signed by an actuary or a professional with at least three years of experience in the actuarial field.

Changes to the Actuarial Report

The changes brought by the new Circular Letter 21/19 aim for simplification and clarification in the preparation of the annual actuarial report, as well as factor in additional consideration given the diversity of non-life insurers domiciled in Luxembourg.

Changes compared to Circular Letter 12/4 are as follows:

- Additional details on the status of the signing actuary are required with respect to his/her working location and whether the signing actuary also acts as Actuarial Function Holder.
- Information to be provided on the accounting treatment applied to written premiums paid in instalments.
- Information on the adjustments applied allowing to reconcile the provisions as valued under the law of 8 December 1994 on annual accounts (as amended) with the technical provisions valued under Solvency II. Furthermore, the Excel file is amended so that the value of the company's accounting technical provisions are compared with the undiscounted best estimate technical provisions calculated by the actuary.
- There is no need to report the run-off development triangles for gross claims paid anymore, as such data is reported in the annual Quantitative Reporting Templates (QRTs). However, run-off development triangles for gross claims incurred as valued under the law of 8 December 1994 still need to be reported.
- The section on the equalisation provision on credit insurance is removed from the reporting requirements as it became obsolete since Solvency II came into force.

[1] https://www.caa.lu/uploads/documents/files/LC21-19.pdf.

- For each reinsurance treaty in-force at the valuation date, information is required on whether the reinsurance treaty has been put in place by the group to the benefit of the Luxembourgish insurance company and other entities of the group, and, where applicable, a description of the process in place at group level to monitor the exhaustion of the treaty limits and capacity.
- The section on the stress tests related to deterioration of loss ratio is amended. Depending on whether or not the insurance company underwrites more than 80% of the gross written premiums for risks located in Luxembourg, the CAA recommends to respectively simulate three or two scenarios related to natural catastrophes, man-made, and cyber risk.
- The counter-party default stress scenario on the custodian bank is removed.
- The section on product pricing is further clarified. For products representing more than 10% of the gross premium, both the actual combined ratio and the ultimate combined ratio are due to be reported over the last three accident or underwriting years. Furthermore, in case the combined ratio of a defined product is above 100% during two of the last three years, a forward-looking profitability analysis has to be carried out.

How Milliman can help

Our consultants have been advising non-life insurers domiciled in Luxembourg on the preparation of their annual actuarial report for submission to the CAA.

We have also assisted insurers in improving automation, documentation, governance, and controls surrounding their reporting.

If you have any questions or comments on the information above or want to discuss further actuarial reporting, please contact your usual Milliman consultant.

Milliman

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in life insurance and financial services, property & casualty insurance, healthcare, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

milliman.com

CONTACT

Olivier Mahieux
olivier.mahieux@milliman.com

Romain De Harlez
romain.deharlez@milliman.com