



ACTUARIAL NEWSLETTER

Note from the Editor

Dear Colleagues,
We are happy to distribute to you the second issue of CAA's Actuarial Newsletter. I must say that we got very good comments for the first issue and more and more colleagues are asking to publish articles and share news with us.

In this issue we publish the highlights of the President's report which was presented at the 10th Annual General Meeting in December 2002 and the results regarding the committee posts after the new committee's first meeting in January this year.

Our representatives in the GC subcommittees are also reporting on issues currently under discussion.

We are also hosting two very interesting articles the first one written by Mr. Dimitris Dimitriou on the new Insurance Law in Cyprus which was introduced from 1/1/2003 and the other by Mr. Christos Patsalides who is giving his personal views on the strictness of the Orders for Approved Investments as issued by the Minister of Finance in parallel with the introduction of the New Insurance Law.

I will be happy to receive your suggestions for our Newsletter and any articles or news you would like to share with us.

Best regards,

Nicos Koullapis.

LOCAL NEWS

Student Members

Ms. Anastasia Anastassiades who is currently working in the U.K. has completed the U.K. Institute of Actuaries exam requirements for the Fellowship status.

Two new members have recently joined the CAA. Ms. Tassia Tsikinis currently working in the consulting sector in Cyprus and Mr. Theodoros

Iaponas who is working in the Life Insurance sector.

Associate Members

Mr. Marios Schizas has passed Subject 304 (Pensions).

Two new members have recently joined the CAA. Mr. Phlippos Mannaris currently working in the consulting sector in Cyprus and Mr. Panayiotis Vlamis who has recently graduated from a U.K. University.

Fellow Members

Mr. and Mrs. Savvas Sideras gave birth to a beautiful baby boy. Congratulations!

Association

10th Annual General Meeting – December 2002

The 10th Annual General Meeting of our Association was held on 13th of December 2002. In his address to this milestone meeting the President stressed that it marks the start of the evolution of our Association as we enter into a new era which involves a new legislative framework in the financial services sector in general, Cyprus being a member state of the European Union and possibly a reunited island with all its positives and negatives but undoubtedly providing fresh challenges.

In his report the President emphasized the growing involvement of the Association in the policy formation and decision making both at local and international (especially under the Groupe Consultatif) level. Particular mention was made on the work done in the new insurance legislation in Cyprus, the improvement of communication channels between members (with the launching of the newsletter and the website formation being at final stages) and the progress in the education issues which involve amongst other the strengthening of the qualification standards in view of the common education standards for actuarial training across Europe and the decision to defer our Continuous Professional Development (CPD) program until the



upcoming common CPD approach across Europe is formed. A relevant project undertaken by a special subcommittee (in which CAA is represented) of the Groupe's Education Committee has already commenced.

The General Meeting also elected the Association's new Executive Council, which subsequently voted for the following members to take up the posts of:

President	-	Andreas Shakallis
Vice-President	-	Christos Patsalides
Secretary	-	Savvas Sideras
Treasurer	-	Demetris Koulas
Counselors	-	Nicos Koullapis
	-	George Psaras
	-	Andri Callimachou

Prior to the General Meeting a Constitutional Meeting was held in which the required first phase changes to our membership status criteria, in order to align ourselves with the common education standards for actuarial training across Europe by the year 2005, have been suggested and voted for. In a nutshell both the Associate and Fellowship level criteria have been strengthened. The Associate level now requires all technical subjects while the Fellowship level in addition to the Investment and Finance subject and one of the specialization fields (Life Insurance, General Insurance or Pensions) requires a non examinable proof of communication skills plus at least one of the minimum 3 years of work experience to be for Cyprus market related work undertaken in the member's specialization field.

Local Insurance Market

Article on the new Insurance Law

By Mr. Dimitris Dimitriou

The new harmonised Insurance Law, with effect as of 1st April 2003, introduces radical changes in the way Insurance Business and Insurance Supervision are carried out. The obligations of insurance companies under the new law and the powers granted to the Superintendent of Insurance aim towards improving the quality of

services offered, as well as safeguarding policyholder protection.

The major legislative changes as regards the statutory obligations of a Life Company operating in Cyprus are highlighted in this article.

1. Separate management of life and non-life insurance business

Under the new legislation, the licence for the taking-up of insurance business is granted exclusively for either the General Business Class, or in the Life Class. The licence to take-up insurance business in the Life Class may include the accident class and the sickness class, which come under the General Business Class.

An Insurance Company, which was granted license to take-up business in both the General Business Class and in the Life Class before the enforcement of the Law, may continue the simultaneous carrying on of business in both of these classes, provided that the insurance business in each class is separately managed.

The separation of management, in this case, must be organised in such a way that the activities of life and non-life are distinct, in order that:

- The respective interests of policyholders of each class are not prejudiced and, in particular, that profits from Life Class benefit life policyholders as if the General Business Class was not carried by the same insurance company, and
- The minimum financial obligations, in particular solvency margins, in respect of one of the two activities, are not borne by the other activity.

2. Prohibition of carrying on business other than insurance

The law prohibits insurance undertakings to carry on business in the Republic other than that of Insurance. It allows them, however, to proceed in the establishment of other companies or to participate in companies, which do business in other sectors.



In such a case, the insurance undertakings may dispose part of their assets, which exceed their technical reserves and their solvency margin, after they notify the Superintendent of the amount of the capital they intend to use for the establishment or participation in another company.

Thus a life company carrying on, for example, land development business, will need to transfer ownership of its holdings in immovable property (which is under development) to a subsidiary company that will continue the development work. The law is clear on the fact that such a transfer of ownership is not subject to transfer fees, stamp duty and/or capital gains tax.

3. Statutory reserves and Minimum Solvency Margin

The technical reserves an insurance company has to establish in respect of its life business are the Outstanding Claims Reserve, and the reserve in respect of the amounts estimated by an adequate prudent actuarial method, in which all the future obligations are taken into account, according to the provisions set for every policy in force.

The Law introduces certain guidelines for the valuation basis and the valuation method that may be used. In addition it authorises the Superintendent to issue orders regarding the technical reserves of a Cyprus insurance company and the method of calculation of these reserves.

An additional requirement under the new Law is the obligation to maintain a Minimum Solvency Margin. The calculation method specified in the Law is that prescribed in the EU Directives.

4. Orders on Approved Investments

Assets held to cover liabilities to policyholders, no longer need to be placed under trust. Under the new Law, Insurance companies are obliged to invest, on a continuous basis, adequate assets to cover their technical reserves and must, within 3 weeks from the end of each quarter, submit to the Superintendent a register of their approved investments, accompanied by

a statement of the estimation of their technical reserves, in a prescribed form.

The Minister of Finance has issued Orders determining the categories of approved investments in which an insurance company may place its assets for the purpose of covering their technical reserves, and the percentage limits regarding the amounts that may be invested in each category. These orders have been the subject of numerous meetings between the Insurance Association and the Superintendent of Insurance and have gone through several changes before reaching their final form.

5. Statutory Annual Returns

As with the repealed law, Insurance Companies must, within six months from the end of their financial year submit statutory Returns in a prescribed format. The new Returns are based on the FSA Returns and have been prepared by the UK Government Actuary's Department. Consisting in total of 30 (complex) Forms, they present a rather onerous obligation for Insurers. It will be interesting to see how companies will be able to conform to this requirement of the Law and how the office of the Superintendent will be able to go through a detailed examination of these forms.

6. Information to Policyholders

The new Law also introduces a (rather bulky) set of information that should be communicated, in writing, to the policyholder before a new contract is concluded. To ensure the disclosure of information in a uniform manner by all life insurers, the Insurance Association has appointed an ad hoc subcommittee with the aim to set out guidelines on how the required information should be disclosed. Both the Life Committee of the Association, and the Superintendent of Insurance have welcomed the final suggestion of this subcommittee, which has been adopted by all companies.

7. Cooling off Period

The law prescribes that a policyholder who concludes an individual life insurance contract shall have a period of 15 days from the time when he was informed that the contract had



been concluded, within which to cancel the contract. A policyholder who exercises this right is entitled to all premiums paid. This is an unfair arrangement for life companies considering the heavy initial expenses incurred. The Insurance Association is lobbying for changes in the Law that will enable the Insurance Company to deduct initial expenses, such as medical fees, from the amount returned to the policyholder.

This article has attempted to extract a number of important issues of the new legislation, which apparently covers 320 pages. Given the chance in a subsequent edition of the CAA Newsletter, we can focus on other aspects of the legislation. In the meantime, I can only wish all those of you implementing the law, good luck and patience...

Realities of the New Insurance Law

By Mr. Christos Patsalides

The New Insurance Law was passed through Parliament in the first half of 2002 and became effective on January 1st, 2003. However, the most important change in the overall set of the Law, the Orders on Approved Investments, did not take its final form until the end of 2002. In fact, the final version of the Orders was sent to the Companies in December 2002.

The project of harmonizing the local insurance law with the European Directives was assigned to external consultants of the local supervisory authorities presumably because of their experience in the European affairs.

All the times I read through the extremely complicated Orders I never stopped wondering whether the European Union besides paving the way for a stronger solvency position of the industry as a whole did in fact intentionally wish to drive all the small players out of the insurance market. In order to satisfy my curiosity I spent some time trying to find out what is happening in EU countries, other than the UK. The obvious first choice was Greece, obvious for a number of reasons. The common language, the proximity and the existence of certain business relationships makes Greece

the perfect source of new entrants into the local market and it was therefore important to investigate what the corresponding requirements are in Greece.

The investigation of the Greek equivalent to our Orders allowed the drawing of a number of conclusions:

- a. The Orders in Greece are quite simpler than the ones introduced here in Cyprus. In fact, laborious complications that are embedded in our Orders do not exist there.
- b. It is quite clear that the Greek Authorities did their homework and did not introduce immediately a number of provisions that would almost certainly have driven out of the market a number of local players within a very short period of time.
- c. Several of the realities of the Greek market were incorporated into their law and the local authorities have been flexible enough in the last couple of years to appreciate the stock market effects and to revise some of the percentage limitations on certain categories of assets.
- d. The Greek law includes specific limitations as to the related undertakings holdings, but given these limitations there is no need for an alternate valuation basis and the whole circle of valuations that need to be carried out for such holdings embedded in our Orders.

There are a number of provisions in the Orders introduced for Cyprus that I personally consider unrealistic for a market the size of Cyprus and which obviously were introduced without taking into consideration the realities of the Cyprus market. Although the ultimate intention might be good, it is almost impossible to move from the amateur to the premier league in one season. The following examples illustrate certain parts of the Orders that are far stricter than equivalent provisions in Greece or that do not make real business sense for the industry and the country.

- i. In Cyprus Insurance Companies must meet the solvency margin



requirement according to a very strict interpretation of the European Directives. In fact, the European Directives do not talk of the approach embedded in our Orders.

The requirement that the solvency margin must be met by assets of the same standard, admissibility rules and other criteria as those covering non – linked life reserves or general business reserves is not actually part of the Greek Orders as in Greece, the solvency margin can be covered as per the European Directives simply looking at the issued and paid up share capital, retained earnings, etc.

The requirements attached to the covering of the solvency margin in Cyprus render most of the assets of the insurance companies inadmissible. Even the strongest players in the market are bound to face problems in the unfortunate event that the slump in the industry runs for another couple of years.

- ii. In Cyprus Life Companies are not allowed to use Deferred Acquisition Costs to meet either reserves or cover the solvency margin. In Greece this is allowed to a certain extent for reserves and is allowed by default for the solvency margin.
- iii. The decision to improve technologically will be a much harder one to make for Cyprus Insurance Companies. The cost of acquiring modern software and latest hardware is quite substantial, especially if we are talking about the acquisition of specialized administration software the cost of which could easily approach or even exceed £1 million.

The smaller Companies will find it difficult to invest in new technology, as under the Orders all of the software investments and most of the hardware investment will immediately disappear for solvency purposes. If one considers the actual investment that needs to be made in technology today and the size of the local

insurers it is clear that our Companies will start avoiding or thinking twice the possibility of investing in technology. The regulators adopting the Orders obviously did not consider this possibility.

The fact that the requirements in the Orders relating to technology are those that do exist in the UK does not necessarily mean that the requirements are reflecting what they should be. The size differences are such that for the average UK Company the cost of investing in new technology, even allowing for the size of the Company, is a significantly smaller percentage of free assets or premium income or any other measure and thus will not affect its solvency position that much anyway.

The differences are quite significant and are not limited to the few listed above. In another article I will elaborate on most of the differences between Greece and Cyprus.

It is quite obvious that there was no effort to implement a realistic set of Orders that would take into consideration the realities of the local market, the size of the Companies, the size of the market, the standard of the financial markets, etc.

The author of this article is not against stronger regulation and the implementation of stronger standards. However, such a change should take several years and should be in line with the overall market, the local realities and the respective rules and regulations of nearby countries. The author also believes that given the state of the industry the Orders should have provided incentives for the technological advancement of the Companies and not disincentives to any form of investment in technology. It is the author's belief that the Orders should have been more relaxed at the introductory stage and their evolution to a stricter framework should have been gradual.

INTERNATIONAL NEWS

Our representatives in the Group Consultatif committees are reporting on issues currently under discussion.



GC Education Committee

Report by Andreas Shakallis

The final changes to the Core Syllabus for the common actuarial education standards across Europe have been agreed and a more substantial review to update the content to reflect recent developments is in progress.

A continuing professional development (CPD) subcommittee has now been established and commenced its work to define a CPD strategy for the Groupe. Cyprus Association of Actuaries is represented in this subcommittee.

The Committee is undertaking a survey in amongst member associations on actuarial education and qualifications. The last such survey was carried out 10 years ago.

The 2003 Colloquium will be held on 20 June in Budapest on "Pension models in Europe". This is the first major event in one of the EU accession countries. Details are now published on the Groupe's website and have been already being circulated to the members of the Cyprus Association of Actuaries.

GC Insurance Committee (IC)

Report by Nicos Koullapis

Discussions are continued regarding the formation of new Solvency Requirements for Insurance Companies in EU. As mentioned in my previous report there are several views ranging from those member states that wish to retain the traditional approach to solvency and those who want to move to a risk based approach. In February 2002 the Groupe Consultatif's Insurance Committee gave its comments on the paper (known as MARKT/2535/02), which was prepared by European Commissions' DG Internal Market. This paper includes proposals by member states for the design of a new solvency system, a description of the different meanings of the term "solvency", explanation of what is a risk-adjusted prudential regime and how far should harmonization go.

The Groupe Consultatif's Insurance Committee has sent in late September 2002 its comments

to the European Commission on the Report that the European Commission's restricted working group for Life Insurance prepared for the European Commission's IC Solvency Subcommittee. The draft comments for that Report were circulated at the beginning of September 2002 to all member Associations and we immediately sent back our views on that draft.

The Groupe is currently examining the proposals of the IASB (International Accounting Standards Board) for several changes in the existing International Accounting Standards, which will affect Insurance Companies. More particularly, discussions are taking place regarding the adverse impact that the IAS32 and IAS39 might have on Insurance Accounting. For your information, the IAS32 is the standard relating to the disclosure and presentation of financial instruments. The definition on "fair values" is included in this standard. The IAS39 is the standard relating to the recognition and measurement (valuation) of such financial instruments. These two standards affect the Insurance Companies in the transfer of financial risks onto the life insurance contracts benefits. Hence, the life offices will need to implement IAS39 valuation principals in order to produce IAS accounts in 2005. As IAS39 was not written with the complex liabilities assumed by insurers in mind, certain clarifications must be given in order for the insurers to be able to interpret the principles included in IAS39. An interesting article on this subject is included in December's 2002 issue of the "Actuary" (the Actuarial magazine published by the Staple Inn Actuarial Society in London).

In addition, In the light of IAS32, discussions are taking place on the use of "Fair Values Accounting" by Insurance Companies.

The Groupe is also working on the set up of common guidance notes for Actuaries working in the EU.

Another issue currently discussed is the impact of equity markets falls onto the Insurance sector. We have already given (December 2002) to the Insurance Committee an overview of the situation in Cyprus.



EVENTS

Seminar on Approved Investments and Annual Returns

Organized by: Insurance Companies Association

Date: 18-19 March 2003

Time: 8.30 am – 5.30 pm (both days)

Place: Holiday Inn, Nicosia

Speakers: Mr. Jeremy Dunn and Mr. Nick Foster from the GAD's Office.

Applications: You can contact the Insurance Companies Association at 22-763913