



# **AUDITORS AND ACTUARIES MODULE**



**MODULE: AA (Auditors and Actuaries)**

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MODULE	AA:	Auditors and Actuaries
CHAPTER	AA-A:	Introduction

## AA-A.1 Purpose

### *Executive Summary*

AA-A.1.1 This Module presents requirements that have to be met by insurance licensees with respect to the appointment of external auditors and actuaries (the requirement for actuaries is only applicable to insurance firms). This Module also sets out certain obligations that external auditors and actuaries have to comply with, by virtue of their appointment by insurance licensees.

AA-A.1.2 This Module is issued under the powers given to the Central Bank of Bahrain (‘the CBB’) under Decree No. (64) of 2006 with respect to promulgating the Central Bank of Bahrain and Financial Institutions Law 2006 (‘CBB Law’). It supplements Article 61 of the CBB Law, which requires licensees to appoint an external auditor acceptable to the CBB and Articles 72 to 74 dealing with actuaries.

### *Legal Basis*

AA-A.1.3

This Module contains the CBB’s Directive (as amended from time to time) relating to auditors and actuaries and is issued under the powers available to the CBB under Article 38 of the CBB Law. The Directive in this Module is applicable to insurance licensees.

AA-A.1.4 For an explanation of the CBB’s rule-making powers and different regulatory instruments, see Section UG-1.1.



<b>MODULE</b>	<b>AA: Auditors and Actuaries</b>
<b>CHAPTER</b>	<b>AA-A: Introduction</b>

## AA-A.2 Module History

AA-A.2.1 This Module was first issued in April 2005 by the BMA, together with the rest of Volume 3 (Insurance). Any material changes that have subsequently been made to this Module are annotated with the calendar quarter date in which the change was made: Chapter UG-3 provides further details on Rulebook maintenance and version control.

AA-A.2.2 When the CBB replaced the BMA in September 2006, the provisions of this Module remained in force. Volume 3 was updated in January 2007 to reflect the switch to the CBB; however, new calendar quarter dates were only issued where the update necessitated changes to actual requirements.

AA-A.2.3 A list of recent changes made to this Module is detailed in the table below:

Module Ref.	Change Date	Description of Changes
AA-3.1	01/10/05	Corrected reference to Form IFR and IMR
AA-4.1	01/10/05	Added transition rule for requirement for reporting actuary for insurance firms whose long-term insurance business is restricted to group life policies having a maturity of less than or equal to 1 year.
AA-4.3.2	01/07/06	Added a requirement that the Signing Actuary is subject to the approval of the CBB.
AA-A.1.3	01/2007	New Rule introduced, categorising this Module as a Directive.
AA-1.2.3	01/2007	Rule redrafted to clarify reporting obligation
AA-1.5	01/2007	Paragraphs AA-1.5.3 and AA-1.5.5 updated to reflect CBB Law requirements on auditor independence.
AA-3.1.1	01/2007	Clarified that the external auditor's Agreed Upon Procedures are to be submitted to the CBB within four months from the insurance licensee's financial year end.
AA-3.2	01/2007	Added a new section referring to the audit report required as per Module FC.
AA-3A	01/2007	Added a new Chapter on Accounting Standards
AA-4.1.7	01/2007	Clarified that the first three-year period referred to for the report of the signing actuary is for the period ending 31 December 2008.
AA-1.3.1A	10/2007	Clarified the transition period for the rotation of audit partner.
AA-4	10/2007	Amended Actuarial reports Chapter to reflect new definitions of <u>Registered Actuary</u> and <u>Signing Actuary</u>
AA-2.3	01/2008	Corrected reference to <u>Registered Actuary</u> .
AA-A.1.3	01/2011	Clarified legal basis.
AA-3.2.1	10/2012	Clarified that an approved consultancy firm can also provide the report on compliance with financial crime rules required under Section FC-3.3.
AA-1.5.2	04/2013	Changed Guidance to Rule so that insurance licensees may not outsource their internal audit function to the same firm that acts as their external auditor.

AA-A.2.4 Guidance on the implementation and transition to Volume 3 (Insurance) is given in Module ES (Executive Summary).



MODULE	AA: Auditors and Actuaries
CHAPTER	AA-B: Scope of Application

## AA-B.1 Insurance Licensees

**AA-B.1.1** The contents of this Module – unless otherwise stated – apply to all insurance licensees.

AA-B.1.2 The requirements relating to actuaries (Chapter AA-4), apply only to insurance firms, and differentiate between insurance firms undertaking long-term insurance and those undertaking general insurance.



<b>MODULE</b>	<b>AA: Auditors and Actuaries</b>
<b>CHAPTER</b>	<b>AA-B: Scope of Application</b>

## **AA-B.2 Auditors and Actuaries**

AA-B.2.1 Certain requirements in this Module extend to auditors and actuaries, by virtue of their appointment by insurance licensees. Auditors and actuaries appointed by insurance licensees must be independent (cf. Sections AA-1.4, AA-1.5 and Paragraphs AA-4.2.3 and AA-4.2.4). Auditors and actuaries who resign or are otherwise removed from office are required to inform the CBB in writing of the reasons for the termination of their appointment (cf. Paragraphs AA-1.2.3 and AA-4.2.8). Other requirements are contained in Sections AA-1.3 (Audit partner rotation) and AA-3.1 (Auditor reports).



MODULE	AA: Auditors and Actuaries
CHAPTER	AA-1: Auditor Requirements

## AA-1.1 Appointment of Auditor

**AA-1.1.1** In accordance with Article 61(a) of the CBB Law, insurance licensees must obtain prior written approval from the CBB before appointing or re-appointing their auditor.

AA-1.1.2 As the appointment of the auditor normally takes place during the course of the firm's annual general meeting, insurance licensees should notify the CBB of the proposed agenda for the annual general meeting in advance of it being circulated to shareholders. The CBB's approval of the proposed auditor does not limit in any way shareholders' rights to subsequently reject the Board's choice.

AA-1.1.3 The CBB, in considering the proposed (re-)appointment of an auditor, takes into account the expertise, resources and reputation of the audit firm, relative to the size and complexity of the licensee. The CBB will also take into account the track record of the audit firm in auditing insurance licensees within Bahrain; the degree to which it has generally demonstrated independence from management in its audits; and the extent to which it has identified and alerted relevant persons of significant matters.

AA-1.1.4 In the case of overseas insurance licensees, the CBB will also take into account who acts as the auditor of the parent firm. As a general rule, the CBB does not favour different parts of an insurance group having different auditors.



MODULE	AA: Auditors and Actuaries
CHAPTER	AA-1: Auditor Requirements

## AA-1.2 Removal or Resignation of Auditor

**AA-1.2.1** Insurance licensees must notify the CBB as soon as they intend to remove their auditor, with an explanation of their decision, or as soon as their auditor resigns.

**AA-1.2.2** Insurance licensees must ensure that a replacement auditor is appointed (subject to CBB approval as per Section AA-1.1), as soon as reasonably practicable after a vacancy occurs, but no later than three months.

**AA-1.2.3** In accordance with the powers granted to the CBB under Article 63 of the CBB Law, auditors of insurance licensees must inform the CBB in writing, should they resign or their appointment as auditor be terminated, within 30 calendar days of the event occurring, setting out the reasons for the resignation or removal.





MODULE	AA:	Auditors and Actuaries
CHAPTER	AA-1:	Auditor Requirements

### AA-1.3 Audit Partner Rotation

#### AA-1.3.1

Unless otherwise exempted by the CBB, insurance licensees must ensure that the audit partner responsible for their audit does not undertake that function more than five years in succession.

#### AA-1.3.1A

For purposes of Paragraph AA-1.3.1, the first five-year period referred to is for the period ending 31 December 2010 (Refer to Paragraph ES-2.4.3). Therefore, unless there has been a change in the partner appointed since the Rulebook was issued in May 2005, or if a company has been licensed since the Rulebook has been issued, insurance licensees will need to have a new partner responsible for the audit engagement for the year 2011

#### AA-1.3.2

Insurance licensees must notify the CBB of any change in audit partner.



MODULE	AA: Auditors and Actuaries
CHAPTER	AA-1: Auditor Requirements

#### AA-1.4 Auditor Independence

##### AA-1.4.1

Article 61(d) of the CBB Law imposes conditions in order for the auditor to be considered independent. Before an insurance licensee appoints an auditor, it must take reasonable steps to ensure that the auditor has the required skill, resources and experience to carry out the audit properly, and is independent of the licensee.

##### AA-1.4.2

For an auditor to be considered independent, it must, among things, comply with the restrictions in Section AA-1.5.

##### AA-1.4.3

If an insurance licensee becomes aware at any time that its auditor is not independent, it must take reasonable steps to remedy the matter and notify the CBB of the fact.

##### AA-1.4.4

If in the opinion of the CBB, independence has not been achieved within a reasonable timeframe, then the CBB may require the appointment of a new auditor.



MODULE	AA:	Auditors and Actuaries
CHAPTER	AA-1:	Auditor Requirements

## AA-1.5 Licensee/Auditor Restrictions

### *Financial Transactions with Auditors*

AA-1.5.1

Insurance licensees must not provide regulated insurance services to their auditors, including entering into any contracts of professional indemnity insurance with their auditors.

### *Outsourcing to Auditors*

AA-1.5.2

Insurance licensees may not outsource their internal audit function to the same firm that acts as their external auditor.

### *Other Relationships*

AA-1.5.3

Insurance licensees and their auditors must comply with the restrictions contained in Article 217 (c) of the Commercial Companies Law (Legislative Decree No. (21) of 2001), as well as in Article 61(d) of the CBB Law.

AA-1.5.4

Article 217(c) prohibits an auditor from (i) being the chairman or a member of the Board of Directors of the company he/she audits; (ii) holding any managerial position in the company he/she audits; and (iii) acquiring any shares in the company he/she audits, or selling any such shares he/she may already own, during the period of his audit. Furthermore, the auditor must not be a relative (up to the second degree) of a person assuming management or accounting duties in the company.

AA-1.5.5

Article 61 (d) prohibits an auditor from (i) being the chairman or a member of the Board of Directors of the company he/she audits; (ii) holding any managerial position in the company he/she audits; and (iii) acquiring any shares in the company he/she audits, or selling any such shares he/she may already own, during the period of his audit. Furthermore, the auditor must not be a relative (up to the second degree) of a person assuming management or accounting duties in the company.

AA-1.5.6

The restriction in Paragraph AA-1.5.3 applies to overseas insurance licensees as well as Bahraini insurance licensees.



MODULE	AA:	Auditors and Actuaries
CHAPTER	AA-1:	Auditor Requirements

## AA-1.5 Licensee/Auditor Restrictions (continued)

### *Other Relationships (continued)*

AA-1.5.7

A partner, Director or manager on the engagement team of auditing an insurance licensee may not serve on the Board or in a controlled function of the licensee, for two years following the end of their involvement in the audit, without prior authorisation of the CBB.

AA-1.5.8

Chapter AU-1.2 sets out the CBB's 'controlled functions' requirements.

### *Definition of 'Auditor'*

AA-1.5.9

For the purposes of Section AA-1.5, 'auditor' means the partners, Directors and managers on the engagement team responsible for the audit of the insurance licensee.



MODULE	AA:	Auditors and Actuaries
CHAPTER	AA-2:	Access

## AA-2.1 CBB Access to Auditors

### AA-2.1.1

Insurance licensees must waive any duty of confidentiality on the part of their auditor, such that their auditor may report to the CBB any concerns held regarding material failures by the insurance licensee to comply with CBB requirements.

### AA-2.1.2

The CBB may, as part of its on-going supervision of insurance licensees, request meetings with a licensee's auditor. If necessary, the CBB may direct that the meeting be held without the presence of the licensee's management or Directors.



<b>MODULE</b>	<b>AA:</b>	<b>Auditors and Actuaries</b>
<b>CHAPTER</b>	<b>AA-2:</b>	<b>Access</b>

## AA-2.2 Auditor Access to Outsourcing Providers

AA-2.2.1 Paragraph RM-7.4.12 on outsourcing agreements between insurance licensees and outsourcing providers requires licensees to ensure that their internal and external auditors have timely access to any relevant information they may require to fulfil their responsibilities. Such access must allow them to conduct on-site examinations of the outsourcing provider, if required.



MODULE	AA:	Auditors and Actuaries
CHAPTER	AA-2:	Access

### AA-2.3 CBB Access to Actuaries

#### AA-2.3.1

Insurance licensees that appoint a Registered Actuary or Signing Actuary in compliance with the requirements in Section AA-4.1 must waive any duty of confidentiality on the part of the actuary, such that he may report to the CBB any concerns held regarding material failures by the insurance licensee to comply with CBB requirements.

#### AA-2.3.2

The CBB may, as part of its on-going supervision of insurance licensees, request meetings with a licensee's Registered Actuary/Signing Actuary. If necessary, the CBB may direct that the meeting be held without the presence of the licensee's management or Directors.



MODULE	AA: Auditors and Actuaries
CHAPTER	AA-3: Auditor Reports

### AA-3.1 Review of Annual Returns

#### AA-3.1.1

Insurance licensees must arrange for their auditor to review the licensee's annual return to the CBB. The auditor must complete the prescribed form, Agreed Upon Procedures (refer to Part B, Supplementary Information Appendices BR(i) and (ii)) attesting to his/her review, which must be submitted to the CBB by the insurance licensee within four months of the financial year end of the insurance licensee.

#### AA-3.1.2

Insurance firms are required to submit an Insurance Firm Return (Form IFR). Insurance intermediaries and insurance managers are required to submit the Insurance Intermediary and Manager Return (Form IMR). Further details on the annual returns and other reporting requirements of the CBB, including the precise scope of the auditor's review and attestation, are contained in Module BR (CBB Reporting).





MODULE	AA:	Auditors and Actuaries
CHAPTER	AA-3:	Auditor Reports

## AA-3.2 Report on Compliance with Financial Crime Rules

### AA-3.2.1

Insurance licensees must arrange for their external auditor or a consultancy firm approved by the CBB as per Paragraphs FC-3.3.2 and FC-3.3.2A, to report on the insurance licensee's compliance with the requirements contained in Module FC (Financial Crime), at least once a year.

### AA-3.2.2

The report specified in Paragraph AA-3.2.1 must be in the form agreed by the CBB, and must be submitted to the CBB within four months of the licensee's financial year-end.

### AA-3.2.3

Further information on the above requirement can be found in Section FC-3.3.



<b>MODULE</b>	<b>AA: Auditors and Actuaries</b>
<b>CHAPTER</b>	<b>AA-3A: Accounting Standards</b>

## AA-3A.1 General Requirements

### AA-3A.1.1

Insurance licensees must comply with International Financial Reporting Standards / International Accounting Standards ('IFRS/IAS') and, to the extent that they undertake Shari'a compliant activities, relevant standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

AA-3A.1.2 Overseas insurance licensees that do not, at the parent company level, apply IFRS/IAS are still required under Paragraph AA-3A.1.1 to produce pro-forma accounts for the Bahrain branch in conformity with these standards.



MODULE	AA:	Auditors and Actuaries
CHAPTER	AA-4:	Actuarial Reports

## AA-4.1 General Requirements

### *Obligation to Appoint an Actuary for Long-Term Insurance Business*

AA-4.1.1 In accordance with Article 72(a) of the CBB Law, all insurance firms planning to undertake long-term insurance business must, no later than the date on which they start to carry out such business, appoint a Registered Actuary or Signing Actuary, subject to CBB approval.

AA-4.1.2 For insurance firms whose long-term insurance business is restricted to group life policies, having a term of less than or equal to 1 year, and where this long-term insurance business represents less than 5% of the insurance firm's total gross premiums written, this business will be treated as general insurance business and is subject to actuarial requirements as outlined in Paragraph AA-4.1.4.

AA-4.1.3 To secure CBB approval, the actuary must satisfy the CBB's criteria for Registered Actuary or Signing Actuary, contained in Paragraphs AA-4.2.1 to A-4.2.12. The actuary of an insurance firm undertaking long-term insurance business, except as provided for under Paragraph AA-4.1.2, must, on an annual basis, undertake an investigation to enable the preparation of the financial condition report (FCR), as specified in Paragraphs AA-4.3.1 to AA-4.3.7.

### *Obligation to Appoint an Actuary for General Insurance Business*

AA-4.1.4 All insurance firms that carry on general insurance business must ~~consider annually the need to~~ annually commission an actuarial opinion from a Registered Actuary or Signing Actuary. The actuary must satisfy the criteria in Paragraphs AA-4.2.1 to AA-4.2.12.

AA-4.1.5 The Board of the insurance firm must resolve annually ~~either~~ to commission an financial condition report (FCR, or that such a report is not necessary. ~~Where the Board resolves to obtain an actuarial report from an actuary,~~ and a copy of this report must be provided to the CBB.

AA-4.1.6 ~~An insurance firm carrying on the business referred to in Paragraph AA-4.1.4 must obtain an actuarial report by an actuary at least once in every three-year period, or else must apply to the CBB for an exemption to defer this requirement.~~

AA-4.1.7 ~~For purposes of Paragraph AA-4.1.6, the first three-year period referred to is for the period ending 31 December 2008.~~



MODULE	AA: Auditors and Actuaries
CHAPTER	AA-4: Actuarial Reports

## AA-4.2 Types of Actuaries

**AA-4.2.1** For purposes of Chapter AA-4, the CBB recognises two types of actuaries:

- (a) Registered Actuaries as per Article 74 of the CBB Law; and
- (b) Signing Actuaries that are Directors or employees of the insurance firm for which an actuarial report is prepared.

AA-4.2.2 The CBB's authorisation requirements for Registered Actuaries are contained in Module AU (Authorisation).

AA-4.2.3 A Signing Actuary is a controlled function and is subject to the CBB's approval, as per Section AU-1.2, as an approved person.

**AA-4.2.4** All actuaries authorised or approved by the CBB must hold appropriate professional qualifications from a relevant, recognised professional body.

AA-4.2.5 Fellows and Associates (or members of equivalent status) in good standing of the Society of Actuaries (USA), the Institute and Faculty of Actuaries (UK) or the American Academy of Actuaries, or any other similar body with mutually reciprocal licensing arrangements with any of these bodies, will satisfy the requirement in Paragraph AA-4.2.4.

### *CBB Approval Criteria for Registered Actuaries*

**AA-4.2.6** The Registered Actuary must not be a Director or employee of the insurance firm for which he/she is providing the financial condition report and must be authorised by the CBB in accordance with Article 74 of the CBB Law, to carry on the business of an actuary within the Kingdom of Bahrain.

**AA-4.2.7** The Registered Actuary must be independent of the insurance firm.

**AA-4.2.8** For a Registered Actuary to be considered independent, he, his spouse and dependant children must not be a related party to the insurance firm.



MODULE	AA: Auditors and Actuaries
CHAPTER	AA-4: Actuarial Reports

## AA-4.2 Type of Actuaries (continued)

### AA-4.2.9

For the purpose of this Section, a related party of an insurance firm includes:

- (a) A controller of the insurance firm as defined in Section GR-5.2;
- (b) A close link of the insurance firm as defined in Section GR-6.2;
- (c) An associate of a controller as defined in Paragraph GR-5.2.2;
- (d) The extended family of a controller including a father, mother, father-in-law, mother-in-law, brother, sister, brother-in-law, sister-in-law, or grandparent;
- (e) A corporate entity, whether or not licensed or incorporated in Bahrain, where any of the persons identified in Subparagraphs (c) and (d) is a Director or would be considered a controller were the definition of controller set out in Paragraph GR-5.2.1 applied to that corporate entity; and
- (f) An employee of an insurance firm that is related to the insurance firm submitting the detailed **financial condition** report required under this Chapter.

### *CBB Approval Criteria for Signing Actuary*

### AA-4.2.10

The Signing Actuary may be a Director or employee of the licensee concerned.

### AA-4.2.11

Where the Signing Actuary is a Director or employee of the licensee concerned, he occupies a controlled function, and is subject to CBB approval as per Section AU-1.2.

### AA-4.2.12

The Signing Actuary must act independently of the insurance firm in providing **the financial condition** report.



MODULE	AA: Auditors and Actuaries
CHAPTER	AA-4: Actuarial Reports

### AA-4.3 Content of **Financial Condition Report**

- AA-4.3.1** The financial condition report must provide an objective assessment of the overall financial condition of the insurance firm. The report must also comply with the following conditions:
- (a) The actuary responsible for the financial condition report must comply with the relevant professional standards;
  - (b) Where relevant, the financial condition report must include:
    - (i) A business overview;
    - (ii) An assessment of the insurance firm's recent experience and profitability, including as a minimum the experience for the year ending on the valuation date;
    - (iii) An assessment of all insurance liabilities outlined under Chapter CA-5;
    - (iv) An assessment of the adequacy of past estimates for all insurance liabilities, particularly where there has been a change in assumptions or in the valuation method adopted for previous valuations;
    - (v) Where there has been a change in assumptions or in the valuation method from that adopted previously, the effect of those changes on the insurance liabilities and assets arising in respect of those liabilities;
    - (vi) An explanation of the assumptions used in the valuation process including, without limitation, assumptions made as to inflation and discount rates, future expense rates and ,where relevant, future investment income;
    - (vii) An assessment of the adequacy and appropriateness of data made available to the actuary by the insurance firm;
    - (viii) A description of the procedures undertaken by the actuary to assess the reliability of the data provided;
    - (ix) The model(s) used by the actuary;
    - (x) The approach taken to estimate the variability of the estimate; and
    - (xi) The nature and findings of the sensitivity analyses undertaken;
  - (c) The establishment of the surplus or deficit on any conventional long-term insurance fund and in the case of a surplus, the amount that is proposed to be transferred to the shareholder fund and available for distribution;
  - (d) The establishment of the surplus or deficit, if any, for all participants' funds for Takaful firms. In the case of surplus, the amount available for distribution must be specified;
  - (e) For long-term insurance and Family Takaful, include an assessment of asset and liability management, including the insurance firm's investment strategy;



- (f) An assessment of current and future capital adequacy and a discussion of the insurance firm's approach to capital management;
- (g) An assessment of pricing, including adequacy of premiums;
- (h) An assessment of the suitability and adequacy of reinsurance/retakaful arrangements, including documentation of reinsurance/retakaful arrangements and the existence and impact of any limited risk transfer/sharing arrangements;
- (i) Where the implications of the report have an adverse impact on the financial condition of the insurance firm, the report must include recommendations on how to address any shortcomings and eliminate any negative trends; and
- (j) For overseas insurance firms, the report must be prepared for Bahraini operations, but consideration must be given to the financial position of the head office.

AA-4.3.1A The signing actuary or registered actuary may rely on other expert opinions in order to address those matters required in the financial condition report that are outside of scope of the actuary's qualifications. Where such outside opinions are sought, these should be clearly identified in the report.

AA-4.3.2 The report required under Article 72(a) of the CBB Law must accompany the Insurance Firm Return (Form IFR) submitted to the CBB and cover the period covered by that return, as required under Paragraph BR-1.1.22.

AA-4.3.2A The CBB may require a financial condition report on a more frequent basis than the annual requirement outlined. In addition, the CBB may appoint an actuary as an appointed expert as outlined in Section BR-3.5 to conduct a special purpose review of the insurance firm's operations, risk management, financial affairs or other areas as specified by the CBB.

AA-4.3.4 Where the Registered Actuary's or Signing Actuary's investigation establishes a deficit on any fund or part of any fund, the insurance firm concerned must immediately notify the CBB and ensure that remedial action is taken to make good the deficit.

AA-4.3.5 Possible remedial action to address the deficit noted in Paragraph AA-4.3.4 may include a transfer to be made from shareholders' funds of sufficient assets to make good the deficit or a reduction in non-guaranteed bonuses.

AA-4.3.6 Within ninety days of the filing date of the financial condition report, the insurance firm must make copies of the report (or a summary of the report, containing such information as the CBB may approve) available to all policyholders of the licensee on demand on payment of a reasonable sum.



MODULE	AA: Auditors and Actuaries
CHAPTER	AA-4: Actuarial Reports

### AA-4.3 Content of **Financial Condition** Report (continued)

AA-4.3.7

The requirement in Paragraph AA-4.3.6 may be waived by the CBB in the case of overseas insurance firms, where (in the opinion of the CBB) equivalent information about the licensee's business relating to policyholders in the Kingdom can be provided annually. The content, format and dates of such an alternative report are subject to the **prior written** approval of the CBB.

#### *Qualified **Financial Condition** Report*

AA-4.3.9

While the actuary is not required to check the data on which the report is based, he should disclose any material concerns in respect of data accuracy, integrity and sufficiency in the context of the work undertaken.

AA-4.3.10

If, for whatever reason, the actuary is unable to give an unqualified report, he must inform the CBB as soon as possible.

#### *Duties of the Insurance Firm*

AA-4.3.11

The Directors of the insurance firm must provide the Registered Actuary or Signing Actuary with the data and information required for the preparation of the **financial condition** report. The insurance firm must advise the Registered Actuary or Signing Actuary of all known changes in internal methods or procedures that could materially affect the determination of reserves and financial condition.

AA-4.3.12

For general insurance business, claims development data provided to the Registered Actuary or Signing Actuary must be reconciled to the accounting information forming the basis of the statutory accounts.





MODULE	AA: Auditors and Actuaries
CHAPTER	AA-4: Actuarial Reports

### AA-4.3A Role of Actuary in Takaful Firm

AA-4.3A.1 In addition to the requirements under Section AA-4.3, all Takaful firms must submit to the CBB an annual financial condition report from their actuary which must comply with the requirements outlined in this Section as well as in other parts of this Chapter in carrying out their actuarial duties.

#### *Certification of Wakala Fees*

AA-4.3A.2 Takaful firms must ensure their actuary certifies the Wakala fees being charged by the shareholder fund to the participants fund(s). The certified Wakala fee must also be approved by the Shari'a Supervisory Board.

AA-4.3A.3 The actuary must ensure that the contributions charged to the participants, must, at a minimum, cover the claims costs and Wakala fees.

#### *Participants' Fund(s) Underwriting Loss*

AA-4.3A.4 Where a participants fund(s) incurs an underwriting loss, the Takaful firm actuary must provide in his financial condition report an explanation which outlines the reasons for such loss and the remedial steps being taken by the Takaful firm to address any deficit in the participants' fund(s).

#### *Distribution of Surplus*

AA-4.3A.5 In accordance with Section CA-8.5, any distribution of surplus from a participants' fund(s) must be recommended by the Takaful firm's actuary and must be based on a full valuation of liabilities as certified by the actuary and in line with audited financial statements.



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### AA-4.3A Role of Actuary in Takaful Firm (continued)

#### *Earmarked Assets*

AA-4.3A.6 As outlined in Paragraph CA-8.4.4 and Section CA-8.4A, earmarked assets are an integral component of the solvency and liquidity requirements of a Takaful firm. A separate amount of earmarked assets must be allocated for each participants' fund, for each reporting period by estimating:

- (a) The likely impact of adjustments (deductions) of the participants' fund assets as per the admissibility rules (limits) under Chapter CA-4; and
- (b) The liquidity needs of the participants' fund.

AA-4.3A.7 The computed figure of the earmarked assets for each participants' fund are allocated to the insurance business amount of the respective fund to reduce the effect of the admissibility deductions on the participants' funds available capital. As outlined in Chapter CA-4, the insurance business amount is used in the calculation of the participants' fund available capital to meet the solvency requirements.

AA-4.3A.8 Earmarked assets, and in particular cash and those assets converted to cash, are also used to provide the necessary liquidity to the participants' fund(s) as outlined in Section CA-8.4A and are separately allocated to meet the liquidity needs.

AA-4.3A.9 In light of the critical role of earmarked assets in assessing solvency and addressing any liquidity shortfall in a Takaful firm, the actuary must carry out quarterly, or more frequently as required, appraisals of the solvency and liquidity status of the participants' fund(s).

AA-4.3A.10 The actuary's appraisals required under Paragraph AA-4.3A.9 are required to determine the impact of the admissibility deductions and liquidity needs in case of a cash deficit and to ensure that the Takaful firm maintains a sufficient level of earmarked assets to meet any solvency or liquidity requirements.

AA-4.3A.11 As a follow up to the required appraisals of solvency and liquidity requirements outlined under Paragraph AA-4.3A.9, the actuary must determine if the level of earmarked assets meets the solvency and liquidity requirements and recommend to the Takaful firm any increase needed to the earmarked assets to comply with these requirements. The actuary's recommendation must also be approved by the Takaful firm's board of directors.



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#### AA-4.4 Removal or Resignation of an Actuary

AA-4.4.1 An insurance firm must notify the CBB as soon as it intends to remove its actuary, together with an explanation of its decision, or as soon as its actuary resigns.

AA-4.4.2 Insurance firms must ensure that a replacement actuary is appointed (subject to CBB approval as per Paragraph AA-4.1.1), as soon as reasonably practicable after a vacancy occurs, but no later than three months.

AA-4.4.3 If an insurance firm fails to make a fresh appointment of an actuary in accordance with the provisions of Paragraph AA-4.4.2, the insurance firm must not – until such an appointment is made – effect any new contract which constitutes long-term insurance business without the written permission of the CBB.

AA-4.4.4 An actuary who resigns or is otherwise removed from the office of actuary must, within 30 days of his resignation or removal, write to the CBB setting out the reasons for his resignation or removal.