This guidance document has been prepared to assist the appointed actuary or chief financial officer, as the case may be, in the completion of the financial condition assessment of a general insurance company and consequent report.

1. Financial Condition assessment

a) The financial condition assessment, through projection and testing, examines the effect of selected plausible adverse scenarios on the insurer's forecasted capital adequacy and liquidity. The tests would be one of the primary tools for investigation of an insurer's financial condition.

b) The purpose of the testing is to identify:
   - plausible threats to satisfactory financial condition, actions that would lessen the likelihood of those threats, and actions that would mitigate a threat if it materialized
   - the scenarios that would render an insurer's business model unviable.

2. Effective Date

The effective date shall be the end of the 2015 financial year.

3. Projections

a) The projections may be prepared as part of the insurer's business planning process prior to the effective date using a forecast of the position at the effective date. However, in coming up with the base scenario, the appointed actuary or chief financial officer, as the case may be, should update the business plan projections appropriately, if subsequent to the effective date and prior to finalization of the report:
   i. material changes in method or assumptions for valuation of insurance contract liabilities and, if applicable, other policy liabilities or reinsurance recoverables were made at the effective date; or
   ii. material changes in method or assumptions for valuation of insurance contract liabilities and, if applicable, other policy liabilities or reinsurance recoverables are expected to be made that would result in a material change to the financial position of the insurer.

b) Ideally, for the base and each plausible adverse scenario, the insurance contract liabilities and, if applicable, other policy liabilities or reinsurance recoverables, would be revalued (consistent with the scenario assumptions) throughout the projection period. However their revaluation only at the end of the forecast period may be a suitable compromise, unless the appointed actuary or chief financial officer, as the case may be, believes, given the financial position at the end of the projection period, that the financial

condition would not be satisfactory at some point during the projection period if revaluation were performed at that point.

c) The output of the process would include a projected balance sheet, income statement, regulatory capital available, regulatory capital required and net tier 1 capital, indicating the future financial position of the life insurance company at the effective date and no less than each of the next two financial year ends.

4. Criteria

The criteria for the testing of capital adequacy and liquidity should include a test of whether or not an adverse scenario will cause the insurer to breach the minimum regulatory capital ratio or net tier 1 ratio, as specified in the Insurance (Capital Adequacy) Regulations, 2015. Other criteria might include:

a) Under all plausible adverse scenarios, whether or not the statement value of the insurer's assets is greater than the statement value of its liabilities

b) Under the base scenario, whether or not the insurer meets its internal minimum capital requirements.

5. Scenarios

a) Plausible adverse scenarios should be developed on assumptions about matters and risks to which the insurer's financial condition is sensitive taking into account the unique characteristics of the insurer's business. Plausible adverse scenarios vary among insurers and may vary over time for a particular insurer. Risk categories to be considered include – claim frequency and severity, outstanding claims reserves, inflation, premium, reinsurance, investment and counterparty. Other aspects to be modelled or considered would be off-balance sheet items, related company balances, regulatory responses and shareholder dividend payment policies. Relevant, significant and material risks must be considered.

b) Unviable financial condition scenarios should be identified; i.e. circumstances that would render an insurer's business model unviable when at any stage during the projection period its regulatory capital ratio is less than 100%.

c) If the investigation identifies any plausible threat to satisfactory financial condition, then the appointed actuary or chief financial officer, as the case may be, would identify possible corrective management action that would lessen the likelihood of that threat, or that would mitigate that threat, if it materialized. For each such adverse scenario reported upon, the appointed actuary or chief financial officer, as the case may be, would test and report the results both with and without the effect of corrective management action. The appointed actuary or chief financial officer, as the case may be, would report the corrective management action so that users may consider its practicality and adequacy.

6. Tests

a) Test each adverse scenario based on the criteria established for the investigation.

b) Tests of the impact on net tier 1 capital, regulatory capital available, regulatory capital required and solvency of the insurer's shareholder dividend payout policy should be performed and reported.

7. Report

a) If the projections were prepared prior to the effective date, the report should include a reconciliation between the actual and projected balances and ratios at the effective date.

b) The appointed actuary or chief financial officer, as the case may be, should disclose any differences between the base scenario and the insurer's business plan.