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UNITED ARAB EMIRATES
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INSURANCE AUTHORITY

Insurance Authority
United Arab Emirates

Financial Reporting Forms (eForms)

Industry Comments on Version 1.0

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Overview

This report was prepared to summarize all of the comments received by the Insurance Authority with respect to version 1.0 of the Quarterly Financial Reporting Forms (“eForms”) and the Financial Reporting Forms (eForms) User Instructions & Guidelines (“User Instructions”).

For transparency purposes, and to provide a comprehensive reference for the industry, we included all non-company specific comments, but we removed references to specific company names or data to provide anonymity. Where more than one comment applied to a specific item we grouped them together and replied to the group to avoid redundancy in our responses.

When applicable, following each comment (or group of comments) the Insurance Authority response is noted in blue.

General Comments

1. The E-forms classifies the Group Health Insurance under Property & Liability only, while as per article 4 and article 5 of the Insurance Authority Board Decision No.2 of Year 2009, Group Health Insurance can be classified under either "Individual insurance and funds accumulation operations" OR "Property and liability"; therefore, considering such classification is optional for insurance companies operating in UAE we would request your kind assistance to modify the E-forms and add a new line for Group Health insurance to be inserted under Individual insurance and funds accumulation operations as well.

   We understand that the Law allows Health insurance to be under either Property & Liability or Life insurance. To avoid duplication of Health insurance data we chose to only include these as part of Property & Liability in the eForms. When we develop a database system for reporting, allowing Health to be part of Property & Liability or Life insurance is expected to be accommodated.

2. As requested earlier to fill 2014 eForms by year to date data, this has an impact when calculating Solvency Margin, as the formula in the eForms take total of 4 quarters, and as 2014 is Year to date, this means 6 quarters are included in the calculation for Q2 submission and 7 quarters will be Included in Q3 submission, which impacts the numbers of solvency. This issue will be fixed automatically in Q4 submission as 2014 data will not be included in the calculation.

   This issue is acknowledged in the User Instructions.

3. It is important to stress that the 45 days deadline for sending the eForms, condensed financial statements in Arabic reviewed by the auditors and signed-off by the appointed actuary will be difficult to keep for the following reasons. The Branch is made of Individual Life (IL) and Group Life. Extracting IL information and combining it with Group in one trial balance takes time. Then the eForms have to be filled in and condensed financial statements put together. The auditors and appointed actuary have to review and sign-off. The condensed FS have to be translated into Arabic. Not to mention that we have the normal quarterly close which takes a few weeks.

   We understand that this process takes time, which is why we expect all companies to be working toward meeting these deadlines during the alignment period. Note however, that the Financial Statements do NOT need to be translated into Arabic for the purposes of reporting using the eForms. The text can be entered in either English (preferred) or Arabic. Once the data is entered, the forms themselves can be translated simply by changing the Language option on the Cover sheet.

4. Considering the fact that there was no formal notification that quarterly submission of these forms are mandatory for future, we feel that just a month's notice to complete such detailed submission for two quarters is extremely challenging. When the request came in for 31st Dec 2014 submission, we thought it was just a "one-off" dry run. Please confirm if submission of this eForm will continue for all future quarters.

The formal notification was the Financial Regulations which require quarterly reporting of results, so all companies (without exception) should expect to provide a quarterly submission of their financial results for all quarters going forward. As part of this reporting, each form within the eForms are required to be filled in as per instructions on timing (i.e., quarterly vs annually) and type of company (e.g., Takaful forms not required for non-Takaful companies). That said, there is also an alignment period to recognize that it will take time for companies to build an understanding of the reporting requirements, adjust systems, etc. in order to fully meet the reporting deadlines each quarter. Thus, while there are no specific exceptions to the forms to be submitted during the alignment period, we do understand that companies will need to identify gaps in their ability to report all of the data so they can be corrected by the end of the alignment period.

As for the timing during the alignment period, the delay in requesting Q1 & Q2 reporting was due to our need to update the eForms based on industry comments and suggestions from the Beta1 version used for Q4 2014.

5. Data for the previous Quarter is to be uploaded using a macro. We were not able to do this despite enabling macros as the button to run the macro was not editable.

   The macro buttons do not need to be edited. You just need to have the appropriate file open to click on the button which will then run the appropriate macro. Some companies have reported issues when the macros are running, but these have typically been due to using an older version of Excel. If you need assistance in importing or transferring data, please contact the IA using the eformsbeta@ia.gov.ae email address.

6. We would note that when we have rolled forward the 01 file to 02 the data for 31 December 2014 has not been maintained. For efficiency we would suggest that all prior period data should be rolled forward.

   The data for prior periods is rolled forward one quarter at a time. Since the import for each quarter should take less than a minute each, the extra effort on our part to update the macros to import all prior quarters at once far outweighs the benefits.

Specific Comments

The following comments are applicable to a specific section or a specific sheet(s) within that section.

Company Information

1. **INFO-2:** Does the IA want to see Branch staff on the list of Key Management Personnel?

   Yes. For a Branch the Key Personnel could include both Branch and Home Office staff.

2. **INFO-2:** Do Key Management Personnel who are also members of the Board need to be listed twice?

   Yes. Each person should be listed in every section that is appropriate for their duties and responsibilities.

3. **INFO-5:** The figures in the branch model include allocated 'salary' costs for shared services from across the company which are generated by our expense allocation model for EXP-1. The salaries figures in INFO-5 only show the salaries of staff employed in the Branch in the UAE. On page 14 of the User Instructions & Guidelines, point number 1 under Commission & Expense Analysis states that "All expenses must be directly entered or allocated by type of expense. … Only expenses that do not clearly fall into one of the other types should be included with All Other Expenses (EXP-1, Line 31)". The form does not make a distinction between Direct Salary costs and Allocated Salary costs. So following your guidance, we have included Allocated Salary costs in Salaries in EXP-1, but this is resulting in a fail for the check back to the salaries figure reported in INFO-5.

   We have updated INFO-5 to specify that 'salary' costs for employees within the UAE should be delineated by Nationality and we have added new lines for employees outside the UAE. The allocated salary costs (e.g., for a home office of a Foreign Branch) and salary costs for all employees of foreign branches of a UAE group can be entered in these new rows so that the totals from INFO-5 should now tie to the totals in EXP-1. We also note that the employee counts in INFO-4 should only be for employees within the UAE.

4. **INFO-6**: Should the Written premium amount include Fees and charges for investment contracts? (Also see FS-2 question below).

   The written premium should match the written premium noted in FS-2, which in turn should match the written premium in your audited financial statements (as per IFRS).

5. **INFO-7:** Does not breakdown Insurance and Investment premiums into 'Life Insurance' and 'Fund accumulation'. In the way the fee is actually computed (FY14

was latest) it used the Gross Investment premiums rather than Deposit accounted (IFRS-based) premiums.

This issue will be further discussed within the Insurance Authority and will be addressed at a later stage.

Financial Statements

1. **<u>FS-1:</u>** A branch does not carry share capital. This has not been addressed in the IA template.

   There is a line at the bottom for Share Capital at the Group Level on the balance sheet. Typically, the "Home Office" or similar account for a Foreign Branch would be included with the Retained Earnings so that the "local capital" is included and will flow through to your admissible assets.

2. **<u>FS-1:</u>** There is no section for "Deposits with banks". Currently we have put it under "Other Invested Assets", but in Sheet "INV-2" it is taken under "Cash & deposits". Recommend to introduce a line for Bank/corporate deposits.

   Cash & cash equivalents is the same as Cash and Deposits shown in other forms, so these items should not be included as Other invested assets.

3. **<u>FS-2</u>:** We have included the Fees and charges income as part of direct written premiums (Investment contracts) as there is no other line item in the form where this would sit best. Can you confirm this is correct?

   If these fees and charges are meant to reflect the mortality risk, then they should be included as part of written premiums. However, if these fees and charges relate to investment management services of the unit-linked investments, they should be recognized as revenue (under other operating income in the eForms) over the period in which the related services are performed.

   As noted above, the written premiums in FS-2 should match the direct written premiums in your audited financial statements (as per IFRS).

4. **<u>FS-3:</u>** We have FX gains/losses line item to be included somewhere in order for cash flow to work and no caption is available. Can we include this under Finance cost caption?

   If the FX gains/losses have been incurred as a result of sale of investments, please include them under realized gains/losses on sale of invested assets.

   Otherwise you may enter them under finance costs.

5. **<u>FS-3:</u>** The date formula in the header is incorrect.

   We have fixed this issue in version 1.1 of the eForms, but for version 1.0 always assume that the column which is unprotected (e.g., column 4 in Form FS-3) is for the current accounting period and the other columns should be consistent with other similar forms. You should be able to fill in this form as is (ignoring the column heading errors) and when this data is imported into future reporting periods it will be in the correct column.

6. **FS-7:** All receivables have been deemed to be in UAE, as the branch model extracted UAE based customer data only.

   The receivable should be categorized based on the location of the party it is receivable from. For some companies that could mean that all of the receivables are within the UAE.

7. **FS-9:** We have deemed all the balance sheet to be Current – based on the presumption that policyholders can surrender at any point and we would have to liquidate the assets to discharge the liabilities. Can you confirm whether this is a valid assumption for this form?

   This is not a valid assumption. Please note that according to IAS 1, current assets are classified as assets that will be realised within 12 months or the normal operating business cycle. While classifying assets and liabilities, this criteria should be followed.

   Assets and liabilities related to your long-term life policies should normally be classified as non-current because of the nature of the policies issued, but the extent to which the Company reasonably expects to have lapses, terminations, surrenders etc. within 12 months after the reporting date would be classified as current.

   Additionally, other assets/liabilities such as property and equipment, investment properties, end of service benefits and long term loans (if applicable) should not be classified as current unless they will be converted within 12 months after the reporting date.

   As current assets and liabilities means those "that the company expects to realise within the next 12 months", the classification of individual assets and liabilities should be consistent with other assumptions such as expected lapses, terminations, redemptions, etc. during the next 12 months (as noted above). While some assets may be close to or fully current, many others will be split between current and non-current consistent with expected cash flows.

Solvency Margin Analysis

1. **SM-1:** The Head Office account balance is not included in the current form as our interpretation of the solvency calculations currently excludes this amount. Any guidance on the appropriate treatment of these amounts included in retained earnings would be welcome.

   As noted above, as long as the funds are held locally the Home Office account should be included as part of Retained Earnings on the Balance Sheet so that it becomes part of admissible assets for the solvency calculations. The Share Capital at the Group Level, which would be funds held within a group but outside the UAE, will not directly flow into the solvency calculations. A branch that needs to satisfy the solvency requirements will either need to move more capital to the local branch or provide a letter of credit or other guarantee which could become part of Ancillary Own Funds after approval of the Insurance Authority.

2. **SM-1:** The "admissible assets less liabilities" number ultimately comes from FS-1 which includes liabilities on an IFRS basis. Our understanding of the solvency calculation is that it should use the technical provisions as specified in the regulation, which allow for non-unit reserves for unit-linked products, rather than IFRS provisions, which do not.

   You are referring to the calculation of the Solvency Capital Requirement. This is different from the calculation of basic own funds. For the calculation of basic own funds, all assets and liabilities including those relating to non-unit reserves are taken into consideration. This issue will be further discussed within the Insurance Authority and will be addressed if needed at a later stage.

3. **SM-2:** According to the Regulation, Section 3, Addendum 2, Paragraph 19, Technical Provision (including Mathematical Reserves) considered for Solvency purposes should not include unit-linked funds reserves to the extent that it does not include the guaranteed portion of the insurance policies with the unit-linked funds. However, the calculation of SCR for Underwriting Risk, the unit-linked without guarantees reserve was included in the calculation (refer to cells U18, V18, U36, and V36). This is in contradiction to the wording of the Regulation.

   This issue will be further discussed within the Insurance Authority and will be addressed at a later stage.

4. **SM-2:** The technical provisions captured here are on an IFRS basis. Our understanding of the solvency calculation is that it should use the technical provisions as specified in the regulation.

   The technical provisions used in this form are being pulled from other forms which are specified in the regulation. We also note that the technical provisions specified in the regulations are consistent with IFRS, so we do not believe there is a difference between an IFRS basis and regulatory basis for the technical provisions.

5. **SM-3:** The Cash Flows used here are from technical provisions produced on an IFRS basis. Our understanding of the solvency calculation is that it should use the technical provisions as specified in the regulation. Further, even if the reserves were calculated on the regulatory basis, those for unit-linked business are not being read, thus giving an incomplete picture of the branch's Cash Flows.

   The complete picture of the Cash Flows can be found in TP-15 and INV-5 for liabilities and invested assets, respectively. Since the investment risks for the unit-linked funds are born by the policyholders and not the company they are excluded from the calculation of the required capital.

6. **SM-4:** In the calculation of SCR for Credit Risk, the exposure factor for receivables over 3 months was set at 90%. We feel that the exposure factor of 90% is too high. In addition, the calculation does not discriminate the receivable that are just slightly over 3 months (e.g. within 3 months to 6 months) with those that are way over 3

months (e.g. over a year). We think that it is more appropriate to have more aging slabs for receivable (similar to aging in tab FS-8) with lower and varying exposure factors. This could better encourage and incentivize companies to manage their receivables.

We will consider expanding this part of the calculation after we have data from all companies so we can analyze the impact. While the exposure factor of 90% may be high, note that with collateral held to protect the value of those receivables the impact can be greatly reduced. We also note that increasing the number of groups would actually lessen the incentive to collect receivables within 90 days.

7. **SM-5:** The calculation of SCR for Operational Risk is based on the 12 months Earned Premium as the driver of risk. The 12 months Earned Premium is calculated as the 12 months Gross Written Premium minus the increase in Unearned Premium Reserve. We think that this calculation is not appropriate for products in the following categories (Individual Life, Non-Participating, Individual Life, Participating Without Guaranteed Return, Individual Life, Participating With Guaranteed Return, Individual Unit-Linked Life Without Guarantees, Individual Unit-Linked Life With Guarantees, Annuities and Pensions), and considering that:

    - Earned Premium is generally a concept for short term products e.g. yearly renewable product. For the long term product, the reserve kept for these products are typically either Mathematical Reserve or Account Value Balance (for Unit Linked) and NOT Unearned Premium Reserve. As a result, column I and J in SM5 tab was left blank and numbers fed into the calculation of SCR for Operational Risk were erroneous.

    - For Unit-Linked products, a large portion of the premium will be credited into Policyholder Separate Account (mutual funds) and the policyholders will bear the risk of fluctuation in the account value. Therefore, we do not think that the premium from this business is the appropriate measure for exposure to operational risk.

    While we don't disagree with your observations, we do note that operational risk is difficult to quantify and changing the premium basis for various types of Life business would also impact the factor used. We also note that the final capital requirement for operation risk is based on the larger of the premium or technical provision calculation.

8. **SM-5:** The file is protected. The beginning balance for UPR cannot be included, hence Earned Premium for Q1 is not calculated correctly.

    As noted in the User Instructions, the beginning balances can be imported from the prior quarter and for the very first submission a file with only the beginning balances can be used so that earned and incurred values are properly calculated.

Investment Analysis

1. In relation to the ratings as set out in Section 1, Article 3, paragraph 8 can you please clarify if we need to follow the short term or long term credit rating for the particular investment?

   The credit rating used should be the one most relevant to the particular investment. For example, for a short term investment you could use a short term rating and for a long term investment you could use a long term rating.

2. For government related entities such as Abu Dhabi Investment Authority / Abu Dhabi Investment Company / Mubadala, etc. can we apply the same rating to these entities as those given to the Abu Dhabi Government?

   Government related entities should have their own credit rating, which is what should be used for financial reporting. If they are unrated then they should be listed as unrated. Only when a related entity is so closely related to a government that the credit agency assigns a rating based on the government would it be permissible to use that rating.

3. Do fixed deposits need to follow the instrument rating requirement?

   Deposits with Banks in the UAE do not require a credit rating. Deposits with Banks outside the UAE would fall under “Other Invested Assets” and thus would not require a rating. Deposits with non-Banks would require a strong rating to be classified accordingly, otherwise without a rating they would be part of “Other Invested Assets”.

4. **<u>INV-5:</u>** The Form suggests we provide an Asset value and then show expected cash flows from these assets for each of first 30 years and put cash flows outside of 30 years as one bucket. We are not clear whether this is required to follow the Unit liabilities for our asset portfolio, as this forms the bulk of our assets, or was the requirement envisaged in a different way?

   The expected cash flows for each type of security are separately entered for Non-Life and Life assets. The Life assets (and associated cash flows) are further segregated into Unit-Linked and Non Unit-Linked and for both of these, with and without guarantees. For Life companies, only the Non Unit-Linked cash flows are used to calculate the Solvency Capital Margin in SM-3. Thus, your expected cash flows should be entered in the appropriate category.

5. **<u>INV-5</u>:** We have taken the approach that all investments are “Current” in line with FS-9 assumption stated above.

   This is not a correct assumption. Please refer to our response to the question about FS-9 above.

6. **<u>INV-7:</u>** Sheet has error in automatically totaling the Value of the individual investment which is checked against the total value of investment.

   The missing sum at the bottom of INV-7 is a known error which has been corrected in version 1.1. We are not sure how it was deleted from the form. Nevertheless, it is only a crosscheck so as long as you are satisfied that the totals are correct, then you can ignore this error in the form and submit the data.

7. **INV-7:** The total number of individual assets exceeds the 500 rows provided and therefore, we have put in 499 rows and a balancing number in the 500th row. We have separately attached a full file that shows the complete individual assets breakdown.

   The INV-7 form has been expanded to include 2,500 rows for entering individual assets.

Premium Analysis

1. **PRM-1 & PRM-2:** Fees and commission income and income from service activities are included in 'Direct written premiums' as no other caption available.

   Fees and income from non-insurance operations (e.g., acting as a TPA by servicing policies for another organization) would be classified as "Other Income" in FS-2, so would not be included in the PRM forms. Policy fees, commissions and any related income that is charged to the policyholders should be included as part of written premiums in FS-2 and thus should be included in the PRM forms.

2. **PRM-4:** Currently no information available regarding the split of all premiums by geographic location within UAE.

   As noted at the top of Part 2, premiums by Emirate within the UAE is only required at Year End.

Commission & Expense Analysis

6. **EXP-1:** Acquisition costs include net amounts charged to income statement.

   As long as those charges are for the purpose of acquiring or renewing business then this seems appropriate as long as the details of these costs are entered in the appropriate lines.

   Note that in EXP-1, commission costs are broken down into three lines. Direct Commissions, Reinsurance Commission Assumed and Reinsurance Commission Ceded. The net commission expenses is equal to all three of these expenses combined. As such, commission costs must be entered in this level of detail and not as a single net amount.

7. **EXP-1:** Other taxes, licenses and fees balance includes the Insurance authority fees.

   There is a separate line item for Insurance Authority fees under the Taxes, Licenses and Fees column.

8. **EXP-1:** All other grouping of expenses is made on best efforts to classify them in line with the requirements of the form.

   Please document your allocation methodology so that it is consistent from reporting period to reporting period and so that outside auditors and the Insurance Authority can review it.

9. **EXP-1:** Costs include direct and allocated costs for services provided by head office/Group functions.

   Correct. All costs should be included.

10. **EXP-1:** All the expenses incurred in the process of conducting insurance business (as opposed to investment business) are underwriting expenses. These include acquisition expenses, administrative expenses and taxes.

    Correct.

11. **EXP-2:** All commission is standard, i.e., there is no contingent commission. We have deemed our 'Indemnity Commission' and its corresponding claw back to not be part of contingent commission. We understand contingent commission to mean any remuneration paid to agents, brokers, etc. that is dependent on a profit sharing or similar incentive agreement. Our Indemnity commission is contingent on a policy being in force for a determined period (agreed with the broker) and is therefore not classed as Contingent Commission.

    This seems reasonable.

12. **EXP-3:** This is not applicable because we are a Life business and do not have loss adjustment expenses in the sense of a General insurer.

    As a Life insurer you have no departments that investigate and pay claims? The Loss Adjustment Expenses in EXP-1 (Col 1) should match the totals for ALAE (EXP-1, Line 4) and ULAE (EXP-1, Line 32) within EXP-3.

Technical Provision Analysis

1. We have assumed that the Technical Provisions forms are completed on a Regulatory basis and follow our Solvency monitoring for UAE – This was a stated caveat for our last submission done for 2014, however, we want to clarify whether the expectation is that this should be the same as the IFRS Technical Provisions?

   We are not clear on how a "Regulatory" basis would differ from IFRS since the new Financial Regulations specify the use of IFRS? To be clear (hopefully), all of the TP forms show details by type of business which should sum to values in the FS forms and others. In general, the TP forms are intended to show the runoff of your held technical provisions over time to see how well each company does at setting adequate technical provisions.

2. **TP-6, TP-7, TP-8 & TP-9:** We would request the IA to review column BX as this appears to have a formula missing which is not calculating the data correctly.

   Good catch. The formulas in these columns have been restored.

3. **TP-12:** The formatting of the "number of policies" section means that the number of policies is shown as a thousandth of the actual number. This applies to other forms that have policy numbers.

   In both Part 1 and Part 2 of TP-12, the rounding option was removed so that whole numbers of policies and lives covered will always be shown. The remaining Parts will continue to show rounded numbers as specified on the Cover sheet.

4. **TP-15:** We would like to clarify whether the expected claim payments refer to the expected claim payments that the company expects to pay with respect to the IBNR and Case Reserve only or would this also include expected claim payments with respect to the losses also expected on the unearned premium reserve (UPR). In other words should the expected claim payments reflect ALL expected claim payments on the in-force insurance book (i.e. Stemming from IBNR, Case Reserve and UPR) or just the expected claim payments for which we hold loss reserves (i.e. IBNR and case reserves)?

   The expected cash flows in TP-15 should not include UPR as those cash flows would be from future exposures. The sum of the expected cash flows in the last column should match the total technical provisions in the 4th column, which only includes Case Reserves, IBNR and ALAE (net of Salv & Sub).

Reinsurance Analysis

No specific comments were received with respect to the REINS Forms.

Payables Analysis

No specific comments were received with respect to the PAY Forms.

Related Party Transactions

1. **RP-1:** The cell's formatting is not rounding to AED '000 in the same way as other forms/cells.

   This has been corrected in version 1.1.

Takaful Transactions Analysis

No comments were received with respect to the TAKF Forms, but questions related to Takaful vs. non-Takaful are noted in other parts of this report.

Data Quality

1. The newly included data quality sheet shows FAIL status in many sheets. Since the 1Q15 forms need to be filled in Dirhams (with one decimal as optional) many sheets are having rounding variance resulting failed status in cross check sheet.

   If all of the “FAIL”s are for rounding differences of a Dirham or two, then you can just assume they should “PASS”. We have adjusted the rounding check to allow a little more leeway in version 1.1.

2. Various checks are appearing as FAIL. We are ignoring that for this submission. Hope it will be taken care at your end when we submit the eForms.

   You should not just ignore all of the errors when submitting the eForms, as the Insurance Authority has no means of fixing these errors after you submit the data. However, note that a “FAIL” could result from one of (at least) four reasons:

   A. Part of the data is not yet part of the submission as you are still working on the data source during the alignment period.
   B. There is a calculation error in the QUAL-1 form (there are a small number of known errors which have been fixed in version 1.1).
   C. There is a rounding difference which is slightly larger than the difference allowed in test (e.g., within 2 Dirhams instead of 1 Dirham).
   D. The data in the other forms is incorrect.

   Anything that falls into group D, must be fixed by you prior to submission. The other 3 types of errors should be noted as part of your submission. For any of the group A errors you should note when that data will be ready for inclusion in your future quarterly reports (you can note this on the Contents sheet).

3. **Part 2, Line 123:** This test is showing as “FAIL” because the “Total During the Quarter” section (REINS-1, (1), 34, (22)) does not actually tally the amounts entered in the Proportional and Facultative sections.

   In REINS-1, the numbers in Part 1 are pulled from other forms and the companies should then split these values into types of reinsurance. Thus, this test (and the others like it) are a check that the values by type total to the values entered in other forms.