

Responsibility Reserve fund, etc. and Liability Reserve Inspection Manual

Inspection of responsibility reserve fund, etc. and liability reserves

I.

The System of Prompt Corrective Actions are based on solvency margin ratios, and because of this, solvency margin ratios must be calculated from accurate financial statements. The creation of accurate financial statements will entail appropriate accumulation of responsibility reserve fund, etc. and liability reserves. Since responsibility reserve fund, etc. and liability reserves are the source of insurance money to be paid to policyholders, they must be accumulated appropriately.

Therefore, in inspections of insurance underwriting risks, inspectors will need to verify not only insurance underwriting risk management systems but also the total amount of responsibility reserve fund, etc. and liability reserves and the appropriateness of accumulation methods.

II. Insurance companies are required to have accounting auditors and actuaries verify the appropriateness of the amount of responsibility reserve fund, etc. and liability reserves.

Therefore, in inspections of responsibility reserve fund, etc. and liability reserves, inspectors should assume that the reserves have been verified by accounting auditors and actuaries. Based on this assumption, inspectors should perform “process checking.” That is, they will verify the status of the methods for accumulating responsibility reserve fund, etc. and liability reserves by using this manual. Having done this, they will then verify the actual amount of reserves by sampling investigation and by studying the changes of the amounts reserves.

Note: Note that, in the case of non-life insurance companies, if election of actuaries is limited, their work is specified.

Item	Check Point	Explanation of Check Points	Remarks
I. Establishment of structures and rules for responsibility reserve fund, etc. and liability reserves 1. Recognition of directors and role of board of directors, etc.	(1) Understanding of responsibility reserve fund, etc. and liability reserves	(1) Are directors fully aware that properly accumulating responsibility reserve fund, etc. and liability reserves is important from the perspective of ensuring the soundness of the financial position of the insurance company and protecting policyholders?	
	(2) Articulation of accumulation policies	(2) Does the board of directors articulate policies for accumulation methods and accumulation levels in conformity with laws and ordinances (including standard actuary practice, etc., and so throughout)? Do the policies include standard for reporting to and application for approval of the board of directors, etc. concerning changes in accumulation methods or accumulation levels of each insurance product?	
	(3) Confirmation of accumulation	(3) Does the board of directors confirm that the actual accumulation of responsibility reserve fund, etc. and liability reserves is in conformity with laws and ordinances? Does the board of directors of life insurance companies verify that the scenarios, etc. on which future income and expenditure analyses were made by individual divisions in charge of calculation of responsibility reserve fund are appropriate? In doing so, does the board of directors check if past forecasts were correct or not? When the company decides not to accumulate part or whole of the amount equivalent to responsibility reserve fund due to a change in management policy, does the board of directors take measures to realize the change of management policy in question?	
	(4) Examination of actuaries' opinions	(4) Does the board of directors screen the contents of the written opinion submitted by actuaries? For example, does it study if the ground on which the opinion is based is appropriate? If a written opinion states to the effect that the accumulation of responsibility reserve fund, policyholder dividends, or distribution of surplus to employees is not appropriate, does the board of directors correct it in accordance with the opinion in question? If it does not follow the opinion, is there rational value for not doing so? For example, is it because the opinion in question runs counter to business standard of actuary? Does the board of directors of a life insurance company verify that the scenarios, etc. on which future income and expenditure analyses were made by actuaries are appropriate in light of laws and ordinances? In doing so, does the board of directors check if past forecasts were correct or not? When the actuaries in their report propose not to accumulate part or whole of the amount equivalent to responsibility reserve fund due to a change in management policy and the board of directors decides not to make additional accumulation on the ground of the opinion in question, does the board of directors take measures to realize the change of management policy in question?	
	(5) Establishment of divisions in charge of reserve accumulation	(5) Does the board of directors establish the systems such as specify divisions in charge of accumulation and their responsibilities in order to promote appropriate accumulation in conformity with accumulation policies?	
	(6) Assignment of personnel to divisions in charge	(6) Does the board of directors, etc. assign personnel versed in actuarial business to the control division and the internal audit division?	

Item	Check Point	Explanation of Check Points	Remarks
2. Role of actuary	(1) Confirmation by actuaries	(1) Do actuaries check in accordance with laws and ordinances whether responsibility reserve fund are accumulated in conformity with a sound actuary and whether policyholder dividends or distribution of surplus to employees is implemented in a just and fair manner? Are actuaries of life insurance companies involved in calculation of liability reserves in conformity with laws and ordinances? Do actuaries of life insurance companies make future income and expenditure analysis in conformity with laws and ordinances? In particular, are their analyses of growth rate of new contracts, business expense, and the status of asset management based on past performances and reasonable expectations?	
	(2) Submission of written opinions	(2) Do actuaries submit written opinions to the board of directors? Are matters required by laws and ordinances recorded in the written opinions?	
3. Role of auditors and the board of auditors	(1) Auditing of amount of reserves	(1) Do auditors audit the accumulation of responsibility reserve fund, etc. and liability reserves in an appropriate manner on the basis of financial statements, attached specifications, reports by accounting auditors, and opinions of actuaries?	
	(2) Change of accumulation policy	(2) When the accumulation policy on responsibility reserve fund, etc. and liability reserves is changed, does the board of auditors audit the ground on which the board of directors based its decision?	
II. Establishment of appropriate management systems 1. Establishment of accumulation division systems	Control of relevant divisions	When calculating the accumulation amounts of responsibility reserve fund, etc. and liability reserves, does the coordination division together have the authority to control divisions related to the accumulation of responsibility reserve fund, etc. and liability reserves?	
2. Management	(1) Management of operation procedures and schedule	(1) Does the coordination division together clearly set operation procedures for calculating the accumulation amounts of responsibility reserve fund, etc. and liability reserves and make the procedures thoroughly known to relevant divisions? Does it manage the schedule in accordance with the operation procedures? In life insurance companies, does the coordination division together set the scenario to be used for future income and expenditure analyses by individual divisions in charge of calculation?	
	(2) Verification of calculation results	(2) Does the coordination division together verify that individual divisions in charge of calculation have calculated the accumulation amounts of responsibility reserve fund, etc. and liability reserves in conformity with accumulation policies and laws and ordinances and that the results of the calculations are fair? Does it perform the verification by referring to the changes of outstanding balance and by means of sampling? In cases in which the coordination division together performs part of the calculation business (or concurrently serves as a calculation division), is mutual checking ensured, for example, by clearly separating persons in charge?	
	(3) Verification of status of surplus distribution	(3) Does the coordination division together check if the distribution of surpluses to employees or policyholder dividends are carried out by individual divisions in charge of calculation in accordance with the classification by character of insurance contracts in light of the purpose of the system of ensuring impartiality among contractors?	
	(4) Verification of future income and expenditure analyses	(4) In life insurance companies, does the coordination division check if individual divisions in charge of calculation are using prescribed scenarios in their future income and expenditure analyses? In life insurance companies, does the coordination division check if the scope of subjects covered by standard responsibility reserve fund is appropriate?	

Item	Check Point	Explanation of Check Points	Remarks
	(5) Verification of re-insurance	(5) In cases in which responsibility reserve fund are not accumulated due to re-insuring, does the coordination division together check if the underwriter meets the requirements set by laws and ordinances? In the case of financial re-insurance, does the division check if it meets requirements set by laws and ordinances? For example, does it check if all risks have been transferred?	
	(6) Management of computer systems	(6) Are operation procedures clear with regard to the development or alteration of computer systems for calculation of accumulation amounts? Is development or alteration of such computer system required approval of the coordination division? Does the person responsible for the coordination division check the contents of such development and alteration? Does the insurance company have a computer system in place so that unauthorized persons cannot develop or alter the computer system?	
III. Auditing and correction of problems 1. Internal audit	Implementation of internal audit	Does the internal audit division properly audit relevant divisions, such as the division in charge of putting responsibility reserve fund, etc. and liability reserves together, the division in charge of calculation, the system division, damage investigation division (this applies to only non-life insurance companies), etc.?	
2. External audit	Use of external audit	Does the insurance company have its responsibility reserve fund, etc. and liability reserves properly audited by accounting auditors? In particular, with regard to future income and expenditure analyses of life insurance companies, do accounting auditors also check if the scenarios for the analyses are in conformity with laws and ordinances? In cases in which accumulation policies for responsibility reserve fund, etc. and liability reserves have been altered, or in which actuaries of a life insurance company have submitted to the board of directors a written opinion to the effect that additional accumulation of responsibility reserve fund is necessary, does the company have the ground on which the board of directors made the decision verified by accounting auditors?	