GUIDELINES NO. TIU/G-1/2022/15

GUIDELINES ON UNDERWRITING AND CLAIMS MANAGEMENT FOR INSURANCE COMPANIES AND TAKAFUL OPERATORS

1. INTRODUCTION

1.1. These Guidelines are issued pursuant to section 88 of the Insurance Order, 2006 and section 90 of the Takaful Order, 2008 ("the Orders"). These Guidelines aim to provide guidance that should be embedded in the risk management framework covering strategies, policies and procedures in relation to the core activities of underwriting and claims management.

1.2. These Guidelines are to be read in conjunction with the following:

1.2.1. Insurance Order, 2006;

1.2.2. Takaful Order, 2008;

1.2.3. Notice on Corporate Governance for Insurance Companies and Takaful Operators [Notice No. N-3/2017/7];

1.2.4. Guidelines on Risk Management and Internal Controls for Insurance Companies and Takaful Operators [Guidelines No. TIU/G-3/2018/8];

1.2.5. Guidelines on Reinsurance/Retakaful Management for Insurance Companies and Takaful Operators [Guidelines No. TIU/G-3/2020/13]; and

1.2.6. any other notices, directives or guidelines, which the Authority may issue from time to time.

1.3. These Guidelines take immediate effect.

2. DEFINITIONS

2.1. For the purpose of these Guidelines:

2.1.1. "adverse selection" means the tendency of individuals to participate in insurance arrangements where risks of these individuals to experience a loss are more likely than an average individual;

2.1.2. “insurance” includes takaful;

2.1.3. “insurer” means a registered insurance company under the Insurance Order, 2006 and a registered takaful operator under the Takaful Order, 2008, unless otherwise specified;

2.1.4. “reinsurance” shall have the same meaning as reinsurance defined in Guidelines on Reinsurance/Retakaful Management for Insurance Companies and Takaful Operators [Guidelines No. TIU/G-3/2020/13]; and

2.1.5. “senior management” shall have the same meaning as senior management defined in Notice on Corporate Governance for Insurance Companies and Takaful Operators [Notice No. N-3/2017/7].

3. UNDERWRITING POLICY

3.1. An underwriting policy should reflect how the risk management system relates to an insurer’s overall corporate governance framework and its corporate culture.

3.2. The underwriting policy, as part of the risk management system, should at least cover the underwriting process. It should be written in a way to help employees understand their responsibilities regarding risk management.

3.3. The underwriting process should involve:

3.3.1. obtaining and managing essential underwriting information on the risks;

3.3.2. assessing and accepting risks according to the insurer’s underwriting procedures and authority levels; and

3.3.3. monitoring and reviewing the risks accepted.

3.4. The insurer should manage their underwriting processes effectively to avoid adverse selection and to ensure that insurance funds are sustainable in the long run.

3.5. In relation to paragraph 3.2, the underwriting policy should include:

3.5.1. parameters for insurance risks evaluation;

3.5.2. categorisation of insurance risks;

3.5.3. types of insurance risks that may be accepted in the insurance funds;

3.5.4. circumstances under which further investigation or documentation is required prior to acceptance of insurance risks;

3.5.5. the terms on which contracts are written and any exclusions;

3.5.6. the procedures and conditions that need to be satisfied for risks to be accepted;

3.5.7. additional premiums for substandard risks; and

3.5.8. procedures and conditions that need to be satisfied for claims to be paid.

3.6. The underwriting policy should consider the effectiveness of risk transfer. This includes ensuring the following:

3.6.1. that the insurer's reinsurance programme provides coverage appropriate to its level of capital, the profile of the risks it underwrites, business strategy and risk appetite; and

3.6.2. the risks will not revert to the insurer in adverse circumstances.

3.7. The underwriting policy should also describe interactions with the reinsurance management strategy and associated credit risk, and should include details of the reinsurance cover of certain product classes or particular risks.

3.8. In addressing the nature and amount of risks to be underwritten, the underwriting policy should cover:

3.8.1. product classes that the insurer is willing to write;

3.8.2. relevant exposure limits (e.g. geographical, counterparty, economic sector); and

3.8.3. a process for setting underwriting limits.

3.9. The underwriting policy should address the potential impact on the insurer's financial position from material correlations between macroeconomic conditions and the insurance portfolio (for example, by assessing the potential impact stemming from certain insurance products with embedded guarantees and options).

3.10. The underwriting policy should address:

3.10.1. how the insurer analyses emerging risks in the underwritten portfolio; and

3.10.2. how emerging risks are considered in modifying underwriting practices.

3.11. When evaluating the insurance risks, the insurer should ensure that the:

3.11.1. insurance risks to be accepted are consistent with the insurer's risk appetite and underwriting capacity;

3.11.2. insurance risks to be accepted are in line with the assumptions used in determining the pricing of the insurance product; and

3.11.3. rating differentials (such as insurance premiums/takaful contributions loadings), benefit exclusions or limitations on insurance coverage are applied when accepting policyholders/participants with higher risk profiles.

4. UNDERWRITING AND CLAIMS MANAGEMENT

Underwriting Management

4.1. An insurer should have clearly documented underwriting procedures for each of the key types of benefits or products it underwrites so as to provide sufficient guidance to the underwriters. There should also be clear guidelines on when the underwriters should refer to the reinsurer for underwriting support.

4.2. The underwriting procedures should include:

4.2.1. for general insurance business: business objectives, risks selection criteria, rating factors, declined risks, referred risks, reinsurance limits and discount policies; and

4.2.2. for life insurance/family takaful business: rules on how various types of benefits are being aggregated for purposes of determining the additional medical and financial requirements and underwriting authority limits, the details of such additional requirements, types of restrictions imposed (such as in age, sum assured, type of plans or riders allowed), and proposed loadings.

4.3. The insurer should have in place a policy for granting discounts on premium rates, clear delegation of the authority to grant the discounts, and review the policy and delegation arrangement regularly.

4.4. The insurer should ensure that any significant deviation of the underwriting decision from the procedures are duly approved and the rationale for approval should be properly documented. Risks should only be accepted once the necessary reinsurance protection is finalised and effected.

4.5. The insurer should conduct audits or checks of underwriting files regularly with clear and pre-defined terms of reference (e.g. adherence to underwriting procedures or underwriting authorities).

Claims Management

4.6. In the claims handling procedures, an insurer should:

4.6.1. assess the validity of claims and claims settlement amounts; and

4.6.2. ensure that the processing and payments of claims are done in accordance with its claims handling policy.

4.7. Pursuant to paragraph 4.6.1, the insurer should ensure that claims are paid from the relevant funds as stipulated in the policies/takaful certificates.

4.8. The insurer should establish and implement appropriate measures to prevent fraudulent claims or payments of invalid claims.

4.9. The insurer should have a clear process in place for the notification of claims by the intermediaries or the policyholders. The process should ensure that all claims are reported to the insurer at the earliest opportunity and that relevant information is captured in the insurer's information system in a timely manner.

4.10. The insurer should review the claims form regularly to ensure that the content remain reasonably clear, unambiguous and pertinent to enable the claims staff to form an accurate assessment of the validity of the claim.

4.11. The insurer should also have clearly documented claims handling procedures for each of the key types of claims to provide sufficient guidance to the claims staff. The claims handling procedures could cover the documents required for verifying the claim, references to warranties or restrictions imposed at acceptance, methodology for calculating the settlement amount, settlement options available, policies and procedures on large or ex-gratia claims. The claims handling procedures should be regularly reviewed and updated to factor in new developments and trends.

4.12. The insurer should have a clear policy, approved by senior management, with regards to ex-gratia claim payments. The authority to approve such payments should be clearly specified and the rationale for approval should be properly documented. The insurer should ensure that the authority for granting ex-gratia payment is exercised sparingly and appropriately, and regularly review the appropriateness of the limits.

4.13. The insurer should conduct regular reviews to ensure that the claims assessors continue to be competent in their area of delegated authority and quality of the claims decisions made remains satisfactory.

4.14. The insurer should conduct reviews of claim files regularly with clear and pre-defined objectives (e.g. adherence to claims settlement authority limits and file closure procedures or to assess the adequacy of the case reserves set).

4.15. The insurer should have in place regular claims reporting to senior management to raise awareness of key claim exposures and losses, especially where a single claim, loss event or series of losses may in aggregate have an impact on its balance sheet.

MANAGING DIRECTOR
BRUNEI DARUSSALAM CENTRAL BANK

Issue date: 3 Rejab 1443 / 4 February 2022