

# INSURANCE

The companies of insurance and reinsurance are characterized by:

- An inversion of the cycle of production: The selling price, the premium is boxed immediately whereas the service and the payment of the allowance intervene later on
- A promise of service which can be carried out as it can not be carried out
- A possible shift enters the supervening of the detrimental, generating fact of the payment of the allowance and the effective payment of this allowance

This is why the company of insurances and reinsurances:

- Holds a mass of capital to manage in the active zone immobilized and in financial results: more and less been worth on transfer of credits
- must obey the rule of cover: it is only at the final stage of final liquidation that the difficulties of facing the payments appear: obligation to consolidate the technical provisions and the engagements regulated in the active
- its real cost price ignores: pending claims + safety margins
- do not agree the accounting of the premium with the supervening of the detrimental fact: count distribution of the products in time or provisions for contingencies in progress

## **Legal environment of insurance in Tunisia**

- The code of the Insurances envisaged a series of new provisions to regulate the sector of the insurances and reinsurance.
- The various categories of insurances are envisaged by a decree of the Minister for Finance of February 27, 2001
- The countable and financial mode: envisaged by the sectoral standards contained in the decree of the Minister for Finance of bearing 20 June 2000 on the presentation of the financial statements, the internal audit and the countable organization, the technical incomes, provisions, the technical loads and placements (NC 26 with NC 31)
  - Technical Provisions to constitute: decree of the Minister for Finance of 27 February 2001 as modified by the decree of March 28, 2005.
  - Book and statistics envisaged by articles 60 and 61 of the code (as modified by the law n°37-2002 of April 1, 2002)  
(a1 with a2 publishable documents in the JORT and two daily newspapers and the other documents b1 with b10 to communicate to the Ministry for finances)
- Intermediaries; brokers, insurance agents and producer in insurances, experts and police chiefs in damages

In addition to the books, registers and files having to be held obligatorily by the companies of insurance whose list and form are fixed by the code of the insurances and a decree of the Minister for Finance, the companies must set up a handbook detailing the countable organization and procedures as well as the obligatory documents with knowing:

- the continuous review of the placements
- a register of the contracts
- a register of the disasters
- a list of the reinsurance exchanges
- groupings of mutual assurance

- Evaluation of the technical provisions according to the method of the continuous or intermittent review
- behaviours of the accounts in currencies or accountancy pluri-monetarist

#### Particular aspects of organization:

- the internal organization is adapted by the installation:
  - of a detailed flow chart of all the functions
  - a system of delegation of powers on the level of the central services, agencies and branches
  - simple and reliable procedures
  - the separation of the tasks and incompatibility of the functions, authorization of engagements, payment and recording on the level of:
    - the subscription
    - production, the emission, cancellation, the covering and provisions of premiums
    - Disasters and payments
    - financial placements and products
    - acceptances, ceased and retrocessions
    - computerized treatment of information

#### Evaluation of the technical Provisions:

It is a question of evaluating the technical provisions as envisaged by the decree of the Minister for Finance of 27 February 2001 as modified by the decree of March 28, 2005 and of comparing them with the technical provisions registered by the company which concern:

- Provisions for not acquired premiums (PPNA): calculated according to the rule of prorata temporis  $\frac{\text{lasted remaining}}{\text{lasted total}}$ , applied to the clear premiums of transfers and retrocessions which are the responsibility of the assignees and reinsurers
  - Provisions for cancellation of premiums which relates to cancellations of emitted and not boxed premiums
  - Provisions for pending claims (PSAP):
    - calculated exercise by exercise and file by file (except for the car and of the industrial accident)
    - the amounts are given crudes without taking account of the recourse to exert
    - it is added a complement of 5% of the amounts under the overheads and another complement of 3% for the car and the accident industrial as safety
    - Automobile PSAP:
      - \* sinister body: file by file
      - \* sinister materials: highest of the methods file by file, average cost of the disasters of the preceding exercises and gives rhythm payments of the former exercises
    - PSAP accident industrial: calculated file by file while distinguishing:
      - \* provision serious accidents: estimated value of the expenditure to be engaged for the service of the revenues (capital not registered in the mathematical provisions of the revenues)
      - \* provision for allowances day laborers and premiums
    - Mathematical provision of the revenues: revenues with the load of the company increased by 5% for overheads
    - Mathematical provision life and of capitalization: composed of the provisions for:
      - \* Sinister in progress
      - \* Sinister to pay
      - \* Capital and arrears to be paid
      - \* repurchase to be paid
      - \* Participation in the surpluses
- According to a mortality table, interest rates and loadings selected.
- Provisions for equalization: equalization of the results of the various exercises to the title of the spindly insurance by a taking away of 75% of the technical surplus of this branch until reaching 200% of the premiums of the exercise.

- Provision of balancing: intended to compensate for the possible loss of the exercise on the credit insurance and guarantee by a taking away of 75% of the technical surplus until reaching 150% of the highest premiums of the last 5 exercises

#### Evaluation of the Placements representative of the technical provisions:

The evaluation of the placements of the company, representative of the technical provisions in accordance with the decree of the Minister for Finance the 28 the Mars 2005 is summarised in the following table:

Heading of the Credit	Limiting proportion	Evaluation
Titles emitted by the State	20% Prov.Tech.	Purchase price
Built buildings and grounds	20% Prov.Tech and 1 ' building with Prov.Tech.(except registered office)	Price Net purchase of depreciation and the provisions
Bonds	-	Purchase price
Transferable securities with dimensions on the permanent market of the BVMT	30% of the capital of the transmitting company and 10% of the prov.tech	Purchase price except incidental expenses and coupon run Net of provisions
Other titles and values	30% of the capital of the transmitting company and 5% Prov.Tech. and 20% Prov.Tech.	Price Net purchase of provisions
Actions of insurance and foreign reinsurance, authorized	-	Price Net purchase of provisions
Placements on the money market and deposits at financial Etbts	50% Prov.Tech.	Purchase price
Credits on the guarantee funds of legal reinsurance	-	
Advances on contracts life receipts not discharged at-3 month	- 10% clear Premiums	

It is to be specified that:

- These headings can be revalued and to generate more been worth on authorization of the Ministry for finances
- The withdrawal of these values is done on authorization of the Ministry for finances (every 3 months)
  - general principle of the historical cost must be respected, except for the particular case of the placements representative of the contracts in Units of Account which must be presented in value of market.

#### Provisions for contingencies of current liability

To the closing date and in addition to the provisions, depreciation and resorptions, it is proceeded to the constitution of a provision for contingencies of current liability, corresponding to the difference between the total amount of the value of market and the clear book value of the titles concerned when this difference is negative.

The inheritance to be evaluated will be the subject of a countable justification according to the data provided in the financial statements.

**Specific checks of the provisional financial statements, documents and statistics envisaged by the law:**

It is a question of checking the rules of evaluation of the credits on the policy-holders, intermediaries, assignees and assignees as well as the validity, the regularity and the exhaustiveness of the annual report of the companies of insurances which includes/understands the following documents (in particular the documents B4, B5 and B6):

**1 - Publishable documents:**

- A1- Assessment
- A2- States of results

**2 - Nonpublishable documents:**

B1- the operating statement per category or subcategory of insurance

B2- the detailed list of the placements

B3- State of the assets representing the technical provisions and the amounts of these provisions

**B4- State of the premiums or contributions of insurance postponed by category of insurance and exercise of emission**

**B5- State of the premiums postponed by intermediary in insurance**

**B6- State of the premiums or contributions of insurance, the regulated disasters, and the provisions for pending claims by category or subcategory of insurance including/understanding the following tables:**

- Premiums or contributions of insurance acquired with the exercise

- A Number of contracts

- A Number of disasters regulated, paid or classified and to pay: detail by exercise of supervening

- Disasters, payments and provisions: detail by exercise of supervening, the operations carried out during the inventoried exercise

- Average Cost and percentage of the disasters compared to the premiums: detail by exercise in the course of liquidation

B7- State by category or subcategory of insurance of the premiums and results of acceptances in reinsurance ventilated according to the source: local and foreign

B8- State by category or subcategory of insurance of the premiums and the results of transfer in reinsurance ventilated according to the destination: local and foreign

B9- State of the movements during the inventoried exercise of the contracts, capital or revenues assured

B10- State detailed of the mathematical provisions of life insurance and capitalization

**Special report/ratio of the auditor intended for the Minister for Finance**

Envisaged by new article 61 of the code of the insurances (as modified by the law n°37-2002 of April 1, 2002), this report/ratio will have to comprise according to the circular of the Minister for Finance n°947 for September 16, 2002:

- A note on the internal system of audit
- The invoicing policy
- Technical provisions and representative placements
- Credits on the policy-holders, the intermediaries and the reinsurers

### **Examination of the provisional situations**

The examination procedures limited of the semi-annual provisional financial statements can be summarized as follows:

- Awareness of the entity and sector
- Review of the principles and practical countable
- Analysis of the procedures applied for accounting, the classification and the preparation of the summaries
- Discussion of all the significant assertions
- Implementation of the analytical procedures intended to identify the unusual variations and elements
- Requests of information concerning of the decisions taken at the time of the general assemblies, of the meetings of, committee board of directors of audit or any other decision which can affect the financial statements
- Posterior Events at the closing date being able to involve adjustments or information to be mentioned in notes annex to the financial statements...