

GOVERNMENT NOTICE

MEDICAL AID FUNDS

NAMIBIA FINANCIAL INSTITUTIONS SUPERVISORY AUTHORITY

No. X

2018

**STANDARDS MADE UNDER THE FINANCIAL INSTITUTIONS AND MARKETS
ACT, 2018**

The Namibia Financial Institutions Supervisory Authority has under section 410 of the Financial Institutions and Markets Act, 2018 (Act No. X of 2018), made the standards set out in the Schedule.

Gersom Katjimune

Chairperson

Windhoek,

2018

DRAFT STANDARD

THE DETERMINATION OF THE SOUNDNESS OF THE FINANCIAL POSITION OF A
MEDICAL AID FUND FOR THE PURPOSES OF SECTION 353(3)

NAMIBIA FINANCIAL INSTITUTIONS SUPERVISORY AUTHORITY

Standard No: MAF.S.7.5

FINANCIAL INSTITUTIONS AND MARKETS ACT, 2018 [Act No. • of 2018]

The determination of the soundness of the financial position of a medical aid fund for the purposes of section 353(3)

Standard No. MAF.S.7.5

issued by NAMFISA under section 410(8)(q) of the Financial Institutions and Markets Act, 2018

Definitions

1. (1) In this Standard, “Act” means means the *Financial Institutions and Markets Act, 2018* [Act No. • of 2018], and includes the regulations prescribed under the Act and the standards and other subordinate measures issued by NAMFISA under the Act; and
- (2) Words and phrases defined in the Act have the same meaning in this Standard, unless the context indicates otherwise, including without limitation, the following-
 - (a) as defined in section 1 of the Act-
 - (i) NAMFISA; and
 - (ii) valuator;
 - (b) as defined in section 321 of the Act-
 - (i) contribution;
 - (ii) member;
 - (iii) medical aid fund;
 - (iv) fund; and
 - (v) rules.

Applicability

2. This Standard applies to a valuator and to the reports required to be prepared by a valuator pursuant to sections 347, 353(3) and 353(4) of the Act.

Determination of soundness of financial position

3. A medical aid fund will be considered to be in a financially sound position pursuant to sections 347, 353(3) or 353(4) of the Act if:
 - (a) audited financial statements have been prepared at the relevant time and it show that the fund's assets exceed its liabilities and there are no qualifications within the auditor's opinion on the financial statements;
 - (b) the fund complies with any financial reserving requirements and solvency requirements that are specified for medical aid funds in the Act;
 - (c) the valuator's report has been prepared in accordance with standards and principles generally recognised and accepted by actuarial science;
 - (d) the valuator's report takes into account all of the material risks to which the fund is exposed, including risks in respect of -
 - (i) IBNR liability (claims incurred but not reported);
 - (ii) the adequacy of contributions relative to anticipated expenses and claims;
 - (iii) loss of members from the fund;
 - (iv) trends in the demographic profile of the fund's membership;
 - (v) medical inflation;
 - (vi) previous years history and medical loss ratios; and
 - (vii) the fund's investment strategy;
 - (e) the valuator's report certifies that the contributions for all options within the fund are sufficient considering the expenses, claims, health risk factors of members and risks of each option;
 - (f) the valuator's report shows that the assets of the fund held in respect of benefit liabilities exceed those liabilities as at the date of the report, and that a projection of those assets and liabilities on the valuation basis, shows that the projected assets exceed the projected liabilities at the end of each of the three succeeding financial years;
 - (g) the valuator's report includes an analysis of all gains and losses and, where there are losses, indicates the sources thereof and makes recommendations for

increases in the relevant member contributions or reductions in benefits, as provided for by the rules of the fund;

- (h) the valuator's report states what, if any, pending amendments to, rescissions of, or additions to the rules of the fund have been taken into account and what, if any, their financial impact is expected to be, and the necessary steps to be taken to ensure the continuing financial soundness of the fund if their financial impact impairs the fund's financial soundness; and
 - (i) the valuator's report includes a certification free of any expressed reservations as to the financial soundness of the fund.
 - (j) The fund meets the prescribed regulatory capital requirement per standard MAF.S.7.3.
4. The valuator may rely on the immediately preceding report on the financial soundness of a fund provided that in the event it was prepared by another valuator, the valuator includes a disclosure in the report to the effect that the reliance was made on the basis of a review of the report of the other valuator and that no questions or concerns arose, or, if there were any, they were brought to the attention of the other valuator and have been resolved.
5. The valuator must comply with Standard No. MAF.S.7.3 for the purpose of certification.
6. The report required under section 353(3) of the Act must be certified by the valuator concerned and the certification must include:
- (a) the name and qualifications of the valuator;
 - (b) the relationship of the valuator to the medical aid fund;
 - (c) an outline of the matters the valuator has considered in making the certification;
 - (d) a statement that the report is based on methods and assumptions that conform to generally accepted actuarial practices;
 - (e) a statement that the report is based on data that the valuator considers to be accurate and complete;
 - (f) the date by which contribution rates should be next reviewed if the report relates to rates of contributions; and

- (g) any additional information or qualification required in accordance with the professional code of conduct of the valuator.
8. The report of the valuator shall include the following information in addition to that stipulated in clause 7:
- (a) the methods used and the assumptions made including, in the case of those assumptions having significant impacts on the results, a discussion of the basis for their selection or construction;
 - (b) a discussion of the reliance made on the work of others (auditor, previous valuator if applicable, investment advisor, administrator);
 - (c) a summary of the results of the valuation including, for each separate benefit fund, a balance sheet showing the assets and liabilities of the fund;
 - (d) tabular distributions of the data used in the valuation in respect of membership and benefit amounts;
 - (e) in respect of the analysis of gains and losses, a discussion of their significance in terms of the adequacy or inadequacy of member contributions in relation to benefits; and
 - (f) a discussion of the appropriateness of the investment portfolio of each benefit fund in relation to the characteristics of the fund as to its liabilities for fixed or variable benefits and its expected benefit and expense outflows.
9. The report of the valuator on the financial soundness of a medical aid fund should be structured in the following way:
- (a) *Report Identification:* This must include the name of the valuator and the valuator's qualifications, details of the relationship with the fund, the period of the investigation, the date of the report and a reference to the previous report where applicable;
 - (b) *Background:* A general outline of the medical aid fund, benefits provided and membership including the fund structure, nature of business, details of membership trends, inflation and assumptions made and the business plan;
 - (c) *Data:* A discussion of the data, details of different scenarios tested and a commentary on the adequacy of the data and a summary of reconciliations performed, including ratios by members, beneficiaries and dependents, and sensitivity analysis calculations as required by NAMFISA from time to time;

- (d) *Actual Financial Performance:* A summary of the actual financial performance of the fund over the period of the investigation, and where the fund provides a range of benefits, the financial performance of the different classes of benefits must be considered separately, together with an analysis and discussion of expenses pertaining to administration, managed care and management;
- (e) *Insured risk and other Benefit Liabilities:* Details of the calculations of insured risks and other liabilities for other benefits provided by the fund;
- (f) *Investments and other Assets:* Details of the investment policy of the fund, a summary of current investments and details of historical investment returns. The valuator must comment on the appropriateness of the investments with respect to obligations of the fund, and if they align to the investment policy and charter including whether all other applicable Standards and Regulations have been complied with;
- (g) *Financial Position:* Details of the current financial position and an assessment of the minimum assets required for the fund to be financially sound in the opinion of the valuator, including a consideration of the adequacy of contribution rates and a discussion of the likely future financial position. The valuator must conduct an investigation into the solvency of the medical aid fund in accordance with standards MAF.S.7.3; and
- (h) *Risk Management:* A discussion of the key financial risks facing the fund, including membership risks, benefit risks, asset risks, operational risk, credit risk, contractual risk and risk transfer arrangements and expense risks.