

## Functions of the Chief Actuary and the Chief Risk Officer of an Insurer, and the Set of Relations Between Them and Other Position Holders

By virtue of my authority pursuant to sections 2(b) and 41d of the Control of Financial Services (Insurance) Law 5741-1981 (hereinafter: “**the Control Law (Insurance)**”), and after consulting with the Advisory Committee, I hereby order as follows:

### 1. General

The Control Law (Insurance) provides that an insurer, including an insurer which is a managing company for a pension fund, must appoint a chief actuary for each line of insurance business in which it is engaged,<sup>1</sup> whose functions will include the making of a recommendation to the board of directors and to the CEO regarding the size of the insurer’s insurance liabilities or regarding the actuarial balance of the pension fund it manages, whichever is relevant.

Additionally, the Control Law (Insurance) law requires the appointment of a chief risk officer for each insurer and for each pension fund managed by an insurer, whose functions will include advising the board of directors and the CEO regarding the risks faced by the insurer and by each pension fund that it manages.

This Circular establishes rules relating to the functions, powers and work methods of a chief actuary and of a chief risk officer, and regarding the relations between the chief actuary and the chief risk officer and between them and other position holders of the insurer.

Note that this Circular refers to specific categories of risks, as a minimal requirement. Additional provisions will be published in the future with regard to other categories of risks, including operating risks.

### 2. Purpose

The purpose of this Circular is to establish an infrastructure for insurers, in order to ensure the following:

- a. The professionalism of the advice given to the board of directors and to the insurer’s management, and the proper disclosure to the public regarding the assessment of the insurer’s insurance liabilities or regarding the actuarial balance of each pension fund managed by the insurer, whichever is relevant;

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<sup>1</sup> Other than lines of insurance business determined by the Commissioner.

- b. Comprehensive and ongoing advice to the board of directors and management of an insurer regarding any significant risks for its future financial condition or for that of a pension fund that it manages, including the assessment of the insurer's exposure or that of the pension fund to the said risks, and regarding any significant risks relating to assets that are held against yield dependent liabilities, the investment risk of which is imposed on the insureds.
- c. The existence of appropriate resources and controls for quantifying the said risks, of follow-up for them and of control of them;
- d. The implementation of a methodology for the assessment of the potential impact of the said risks and the correlation between them, as a preliminary stage for the allocation of capital which is based on the measurement of the insurer's risks and economic capital.

### 3. Definitions

- a. **"Chief actuary"** and **"chief risk officer"** – as defined in section 41d of the Insurance Control Law;
- b. **"Insurance company liability"** – as defined in the Insurance Business (Control) Regulations (Ways Of Investing An Insurer's Capital And Reserves And Management Of His Obligations), 5761-2001;
- c. **"Public company"** and **"private company"** – as defined in the Companies Law, 5759-1999;
- d. **"Lines of insurance business"** – as defined in the Insurance Business Control Announcement (Lines of Insurance Business), 5745-1985 (hereinafter: "the Control Announcement"). For the purpose of this Circular, the sub-lines, as defined below, can also be defined as lines of insurance business;
- e. **"Sub-lines"** –
  - 1) Regarding general insurance: comprehensive insurance for apartments, comprehensive insurance for businesses, apartment insurance through agencies owned by mortgage banks and professional liability insurance;
  - 2) Regarding health insurance:
    - a) Regarding individual insurance – medical expenses, foreign workers, difficult illnesses, travel abroad, dental, other forms of coverage that are not included in section 1(a)(6) of the Control Announcement;
    - b) Regarding group insurance - medical expenses, foreign workers, difficult illnesses, travel abroad, dental, other

forms of coverage that are not included in section 1(a)(6) of the Control Announcement;

- 3) Regarding life insurance: disability income, private nursing care, group nursing care, and other forms of coverage that are not included in sections 1(a)(1), 1(a)(2) and 1(a)(4) of the Control Announcement.
- f. **"Pension fund"** – a pension provident fund, other than an insurance fund, as defined in the Control of Financial Services (Provident Funds) Law 5765-2005;
  - g. **"Income tax regulations"** – Income Tax Regulations (Rules for Approval and Management of Provident Funds), 5724-1964.

#### 4. Chief actuary

##### a. General provisions

- 1) Only one chief actuary will be appointed as the chief actuary for each pension fund and for each line of insurance business.
  - 2) An insurer may choose to not appoint a chief actuary for the following lines of insurance business:
    - a) Cargo shipping insurance;
    - b) Insurance of investments of purchasers of apartments, pursuant to the requirements of the Sale Law (Apartments) (Insurance of Investments of Apartment Purchasers);
    - c) The giving of guarantees;
    - d) Insurance against natural damages, for agriculture;
    - e) Credit insurance;
    - f) Foreign trade risk insurance;
    - g) Insurance for housing credit secured by a mortgage (in an individual line – Monoline);
    - h) Aircraft insurance, including third party liability insurance;
    - i) Marine/ship and boat insurance, including third party liability insurance;
- b. **Termination of the chief actuary's term of office prior to the end of the appointment, following a decision by the insurer**

If an insurer has resolved to terminate the term of office of a chief actuary other than following his resignation, each of the following must be done:

- (1) The minutes of the board of directors meeting at which the termination of the term of office was approved, as well as the minutes of the audit committee's meeting, will specify the circumstances and reasons for the termination of the term of office;
- (2) If the insurer is a public company – a notice regarding the termination of the term of office will be published in accordance with the provisions of section 34(a) of the Securities Regulations (Periodic and Interim Reports) 5730 –1970.
- (3) If the insurer is a private company – a notice regarding the termination of the term of office will be delivered to the Commissioner within three business days from the date of the board of directors' approval of the termination of the term of office.

**c. Termination of the chief actuary's term of office prior to the end of the appointment, following a resignation by the chief actuary**

- (1) If a chief actuary resigns, he will submit a written declaration regarding the circumstances and reasons for his resignation to the board of directors and to the audit committee. If such a declaration is received, it will be brought before the board of directors and will be recorded in the minutes of the first board of directors meeting held after the resignation, and will be attached to those minutes.
- (2) The termination of the chief actuary's term of office following a resignation will be subject to the provisions of sections 4b(2) and 4b(3) above.

**d. Reporting by the chief actuary to the board of directors and to the CEO**

- (1) The chief actuary will, at least once a year, submit to the insurer's board of directors and to its CEO, his recommendations regarding the assessment of the insurer's insurance liabilities in the lines of insurance business for which he was appointed, for the purpose of preparation of the financial statements, or his recommendations regarding the actuarial balance of the pension fund, whichever is relevant.<sup>2</sup>

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<sup>2</sup> In accordance with the provisions of the following Circulars or in any other circular that replaces them:

- (2) The chief actuary will be present at a discussion by the board of directors regarding recommendations he has submitted as described in paragraph (1).

**e. Attachments to the annual financial statements**

Subject to the Commissioner's instructions as they may be from time to time regarding an insurer's annual financial statements, the following provisions will also apply:

- (1) A declaration signed by the chief actuary, regarding the propriety of the reserve for coverage of the insurer's liabilities in all lines of insurance business for which he has been appointed will be attached to an insurer's annual financial statements.<sup>3</sup>
- (2) A declaration signed by the chief actuary regarding the propriety of the actuarial balance will be attached to a pension fund's annual financial statements.<sup>4</sup>
- (3) If an insurer has appointed a chief actuary for lines of insurance business for which there is no obligation to appoint a chief actuary, as described in section 4a(2) above, the insurer may attach a declaration such as described in paragraph (1) to its annual financial statements.
- (4) If the insurance obligations presented in the financial statements do not conform to the chief actuary's recommendations, the reasons for such will be described in a note to the financial statements.
- (5) If the financial statements of a pension fund do not conform to the recommendations of the chief actuary regarding the actuarial balance, the reasons for such will be described in a note to the financial statements.

**f. The chief actuary's right to receive information**

The chief actuary may request and receive any document or any information which in his opinion is necessary for carrying out his function and which is held by the insurer or by one of its employees or officers or by external consultants that it has engaged.

**g. The transmission of information from the auditor and from the internal auditor to the chief actuary**

An insurer's or a pension fund's auditor and internal auditor will deliver to the chief actuary a copy of every written announcement

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<sup>3</sup> See above.

<sup>4</sup> See above.

delivered to the insurer's CEO, CFO<sup>5</sup> or board of directors, which is related to the lines of insurance business for which the chief actuary was appointed, and which deals with a condition, event or transaction that requires correction and which can affect the financial strength of the insurer or of the pension fund, whichever is relevant.

## 5. Chief risk officer

### a. Functions of the chief risk officer

The chief risk officer of an insurer or of a pension fund will have, at the least, the following functions:

#### (1) Identification of the significant risks described below:

- a) The significant insurance and financial risks to the insurer's financial strength or to those insured by a pension fund, whichever is relevant, and which can impact on the liability to the insureds.<sup>6</sup> Potential liability due to future deposits by existing insureds and by potential insureds will also be taken into consideration for this purpose;<sup>7</sup>
- b) The significant risks for the insurer's financial strength or to those insured by a pension fund, which are involved in the assets held against an insurer's insurance liabilities or against a pension fund's liabilities, whichever is relevant, or which relate to investment strategy regarding the said assets;<sup>8</sup>
- c) The significant risks facing insureds that are involved in assets held against the yield dependent liabilities of the insurance company and that are involved in investment strategy. The above applies separately to each investment track.

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<sup>5</sup> Or to the person who serves in the position of the CEO or of the CFO, whatever the person's actual title is.

<sup>6</sup> Including risks for the insurer's capital. Significant insurance and financial risks to an insurance company or to a pension fund which could impact on the liability to insureds may include, *inter alia*, risks relating to underwriting, pricing, improper assessment of insurance liabilities (model risk and parameter risk), disasters, death, lifespan, morbidity, cancellations, options for insureds that are included in policies, asset liability matching, etc. For this purpose: model risk means the risk involved in choosing a deficient model regarding future cash flows. Parameter risk means the risk involved in an incorrect assessment of distribution.

<sup>7</sup> The assessment of an insurer's potential liability due to potential insureds will be carried out in reliance on the insurer's action program and for a period to be determined, provided that it is not less than 12 months.

<sup>8</sup> Significant risks relating to the investment of assets may include, *inter alia*, risks relating to market prices (interest rates, shares, real estate, foreign currency, derivatives, etc.) or to credit (loans, debentures, mortgages, re-insurance, etc.).

- d) The significant financial risks for the financial strength of an insurance company which is a managing company of a pension fund.<sup>9</sup> Potential liability due to future deposits by existing insureds and by potential insureds will also be taken into consideration for this purpose;<sup>10</sup>

**(2) Assessment of the manner in which each risk that is identified as described in section 5a(1) above is managed, at least in the following respect:**

The chief risk officer will examine whether the insurer's or the pension fund's existing controls, means and resources:

- a) Are sufficient for measuring the risk and for monitoring it;
- b) Enable the spreading of the risk, the limitation of the risk to a level that has been determined in advance, the set-off or transfer of the risk to a different party;
- c) Are appropriate for the insurer or the pension fund, whichever is relevant;
- d) Are consistent and coordinated with the controls relating to other significant risks.

**(3) Immediate reports and updates, and supervision of the correction of deficiencies**

- a) If it has been proven to the chief risk officer that the said controls, means and resources do not meet each of the criteria mentioned in section 5a(2) above, he will take the following steps:

- 1) He will report immediately and in writing to the insurer's CEO and board of directors. Such report shall include a detailed description of the significant deficiencies and recommendations for their correction.
- 2) He will make certain that those deficiencies which the CEO has decided to correct are in fact corrected.

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<sup>9</sup> Significant financial risks for an insurer which is the managing company of a pension fund may include, *inter alia*, risks relating to the insurer's expenses, to the degree of its sensitivity to the pricing of the pension rights in the pension fund, to the potential impact on the insurer of the freezing of insureds' rights or of the departure of insureds, including the transfer of a group of insureds to a different pension fund, etc.

<sup>10</sup> The assessment of an insurer's potential liability due to potential insureds will be carried out in reliance on the insurer's action program and for a period to be determined, provided that it is not less than 12 months.

- 3) He will update the CEO and the board of directors in writing regarding the completion of the correction of the deficiencies. A chief risk officer may integrate the report required by this paragraph into the report required pursuant to section 5a(4) below.
- b) If the chief risk officer of an insurer or the pension fund, whichever is relevant, is made aware of information regarding any matter which he believes can have a negative and significant impact on the financial condition of the insurer or of the pension fund and which requires correction, he will report regarding such information immediately and in writing to the insurer's CEO and to its CFO. A copy of such report will be delivered to the insurer's or pension fund's (whichever is relevant) board of directors, internal auditor, chief actuary,<sup>11</sup> and auditor.

#### **(4) Periodic reporting to the CEO and board of directors**

- a) The chief risk officer will submit, on at least a quarterly basis, a written report including all that is required by sub-sections (c) through (e) below.
- b) Notwithstanding the provisions of sub-section (a) above, a chief risk officer may submit a report regarding the significant risks that have been identified pursuant to sections 5a(1)(a) and 5a(1)(d) above, regarding significant credit risks<sup>12</sup> that have been identified pursuant to sections 5a(1)(b) and 5a(1)(c) above, and the reports required pursuant to paragraph (c)(5) and pursuant to sub-section (d) below on an annual basis, provided that he reports regarding significant changes related to the said risks on at least a quarterly basis.
- c) **Assessment of the potential impacts of the risks and the required financial capital**
  - 1) Quantification of the exposure and assessment of the potential impact of the significant risks identified pursuant to sections 5a(1)(a) and 5a(1)(b) above, for the future financial condition of the insurer or of those insured by the pension fund, whichever is relevant, according to

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<sup>11</sup> For the relevant line of insurance business or for the pension fund.

<sup>12</sup> Loans, debentures, mortgages, re-insurance, etc.

standards of measurement to be defined by the insurer and throughout future periods that it determines.<sup>13</sup>

- 2) Quantification of the exposure and assessment of the potential impact of the significant risks identified pursuant to section 5a(1)(c) above, for those insured by yield dependent liabilities, according to standards of measurement to be defined by the insurer and for future periods that it determines.<sup>14</sup>
  - 3) Quantification of the exposure and assessment of the potential impact of the significant risks identified pursuant to section 5a(1)(d) above, for the future financial condition of an insurer which is a managing company of a pension fund, according to standards of measurement to be defined by the insurer and for future periods that it determines.<sup>15</sup>
  - 4) In making his reports pursuant to paragraphs (1), (2) and (3) above, the chief risk officer will discuss the limitations of the assessment and of the possible distortions in it.
  - 5) Assessment of the capital required of the insurance company in order to meet the significant risks identified pursuant to sections 5a(1)(a) and (b) above sufficiently. For the purpose of the said assessment, the degree of the correlation between the various risks may be taken into consideration.<sup>16</sup>
- d) **Description and assessment of controls, the insurer's preparation and execution**
- 1) A description of the insurer's measures for controlling and following-up the significant risks identified pursuant to section 5(a)(1) above and the combination of these measures.

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<sup>13</sup> For the purpose of the said quantification and assessment, an assessment model integrating a number of risks may be used even if it does not accurately assess each risk separately. If such a model is used, significant risks that are not assessed in the context of the said model will be assessed separately.

<sup>14</sup> See above.

<sup>15</sup> See above.

<sup>16</sup> Note that the assessment is to be carried out in accordance with criteria to be determined by the insurer, which shall include, *inter alia*, methods, standards of measurements, duration of future periods and risk tolerance, and not according to the minimal capital requirements established in legal provisions.

2) Assessment of the insurer's controls, readiness and execution, including:

(a) The degree of coordination between the control and follow-up measures – with regard to the insurer or to the pension fund, whichever is relevant – concerning the significant risks identified pursuant to section 5(a)(1) above, and the manner in which the said control and follow-up measures are implemented;

(b) The insurer's readiness or that of a pension fund that it manages for dealing with the risks related to irregular events that are characterized by low frequency but a significant impact, such as, for example, natural disasters, plagues and wars;<sup>17</sup>

(c) The actions taken by the insurer or by a pension fund that it manages, for the dispersal, limitation, set-off or transfer of the significant risks identified pursuant to section 5(a)(1) above, and their contribution to the management of the said risks.

3) A specification of those deficiencies that have been reported pursuant to section 5(a)(3) and which have not yet been corrected, **whether or not the CEO has decided to correct them.**

e) **Recommendations**

The chief risk officer's recommendations for the improvement of the manner in which the significant risks identified pursuant to section 5(a)(1) above are managed will be given in reliance on the reporting carried out pursuant to this section (5(a)(4)). The recommendations will be ranked according to the proposed order of preferences for the improvement of the manner in which the risks are managed,<sup>18</sup> and will be accompanied by a proposed action program for the improvement of the manner in which the said risks are managed.

**(5) Periodic reporting to the yield dependent investments committee**

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<sup>17</sup> The elements of the preparation can include the development of possible negative scenarios, stress tests, risk transfers, action plans for the possible realization of incidents, etc.

<sup>18</sup> Note that the order of preferences will relate separately to risks faced by those insured by the insurance company's yield dependent liabilities.

The chief risk officer will, on at least a quarterly basis, submit to the yield dependent investments committee a written report in the format of the report described in section 5(a)(4) above, relating to the insurance company's yield dependent liabilities and the assets held against them. Note that this report will include, *inter alia*, an examination of the performance of investments in yield dependent liabilities as compared to the performance of benchmarks to be determined in advance by the committee.

**(6) Disclosure of information transmitted by the chief actuary, investments division manager and those responsible for re-insurance**

a) The chief risk officer will attach to the report submitted pursuant to section 5a(4) the information provided to him – pursuant to sections 6a, 6b and 6c below – by the chief actuary, the investments division manager and by those responsible for re-insurance.

b) The chief risk officer will attach to the report submitted pursuant to section 5a(5) the information provided to him by the investments division manager – pursuant to section 6b below – relating to the insurance company's yield dependent liabilities and to the assets held against them.

**b. Delegation of the chief risk officer's responsibility**

The chief risk officer's responsibility pursuant to this Circular may not be delegated.

**6. The set of relations between the chief risk officer and the other position-holders in the insurers**

**a. Transmission of information from the chief actuary to the chief risk officer**

(1) The chief actuary<sup>19</sup> will submit to the chief risk officer, on at least a quarterly basis, a written report including the information required pursuant to paragraphs (2) through (6) below. Notwithstanding the above, the chief actuary may submit the said report on an annual basis, provided that he reports to the chief risk officer regarding significant changes related to the information required in the said paragraphs on at least a quarterly basis.

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<sup>19</sup> If the chief risk officer also serves as the chief actuary, he must document this information in writing.

- (2) The identification of the significant insurance and financial risks for the insurer's financial strength in the lines of insurance business for which the chief actuary was appointed, which can have an impact on the liability to insureds,<sup>20</sup> such as, for example:
  - a) In the life insurance and health insurance lines – identification of risks relating to death, life-spans, morbidity, cancellations, expenses, options to insureds, interest rates, asset liability matching and assessment of liabilities (model risk and parameter risk);
  - b) In the general insurance line – identification of risks relating to frequency and scope of claims (catastrophic events, cumulative impact of a number of large claims or a higher than expected level of damages), future income from premiums, interest rates, asset liability matching, expenses, pricing and incorrect assessment of liabilities (model risk and parameter risk);
- (3) The identification of the significant insurance and financial risks facing those insured by a pension fund which could impact on the liability to them,<sup>21</sup> such as, for example:
  - a) For a pension fund that was established prior to January 1, 1995 – the identification of risks relating to the reduction of the insureds' rights which are connected to death, life-span, morbidity, abandonment, freezing of rights and the growth of the insureds' pension salary or relating to expenses, interest rates and the pension fund's asset liability matching of the pension fund;
  - b) For a pension fund that was established after January 1, 1995 – the identification of risks relating to the reduction of the insureds' rights which are connected to death, life-span, mortality of the insureds, or relating to interest rates and the pension fund's asset liability matching.
- (4) Quantification of the exposure and assessment of the potential impact of the significant risks identified pursuant to sections 6a(2) and (3) above on the future financial condition of the insurer or on

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<sup>20</sup> For this purpose, the potential liability due to future deposits by existing insureds and by potential insureds will also be taken into consideration. The assessment of an insurer's potential liability due to potential insured's will be carried out in reliance on the insurer's action program and for a period to be determined, provided that it is not less than 12 months.

<sup>21</sup> See above.

those insured by the pension fund, whichever is relevant, according to standards of measurement to be defined by the insurer, and throughout future periods that it determines. A detailed description of the manner of the assessment, including the methods, standards of measurements, duration of future periods, data and assumptions used in the assessment, with a discussion the limitations of the assessment and of the possible distortions in it, will be attached to the assessment described above.

- (5) A detailed description of the insurer's measures for controlling and following up the risks identified pursuant to sections 6a(2) or 6a(3) above, whichever is relevant, and the combination of these measures in the lines of insurance business for which the chief actuary was appointed.
- (6) His recommendations to improve the manner in which the said significant risks are managed.

**b. Transmission of information from the investments division manager to the chief risk officer**

- (1) The investments division manager<sup>22</sup> will submit to the chief risk officer, on at least a quarterly basis, a written report including the information required pursuant to paragraphs (2) through (7) below. Notwithstanding the above, the investments division manager may submit the said report regarding the significant credit risks, regarding the information required pursuant to paragraph (6) and regarding the information regarding the market price risks required pursuant to paragraphs (2) and (3) below on an annual basis, provided that he reports to the chief risk officer regarding significant changes related to them on at least a quarterly basis.
- (2) The identification of the significant risks for the insurer's financial strength or to those insured by the pension fund, whichever is relevant, and which are involved in the investment of the insurer's or the pension fund's assets, including:<sup>23</sup>
  - a) The risks related to the investments policy and to their timing (asset allocation);

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<sup>22</sup> Or to the person actually serving in the position of the manager of the insurer's investment division, whatever the person's actual title is.

<sup>23</sup> The provisions of this paragraph will apply to an insurance company separately with regard to each type of liability and with regard to the totality of the insurance company's liabilities.

- b) The risks related to assets held against the insured's liabilities (asset selection), including credit risks,<sup>24</sup> interest risks and other market price risks.
- (3) The identification of the significant risks facing the insureds, because of a yield dependent liability, which are involved in the investment of the assets held against the liability, as described in sections (a) and (b) of paragraph (2) above.
- (4) A description of the exposure and a description of the potential impact of the significant risks identified pursuant to sections 6b (2) above, regarding the future financial condition of the insurer or of those insured by the pension fund, whichever is relevant, according to standards of measurement to be defined by the insurer and throughout the future periods that it determines.
- (5) A description of the exposure and a description of the potential impact of the significant risks identified pursuant to sections 6b(3) above for those insured by a yield dependent liability, according to standards of measurements to be defined by the insurer and throughout the future periods that it determines.
- (6) A description of the insurer's measures for controlling and following-up the risks identified pursuant to section 6b(2) and (3) above and the combination of these measures.
- (7) His recommendations regarding the improvement of the manner in which the said significant risks are managed.

**c. Transmission of information from those responsible for re-insurance to the chief risk officer<sup>25</sup>**

- (1) Those responsible for re-insurance will submit to the chief risk officer,<sup>26</sup> on at least a quarterly basis, a written report including the information required pursuant to paragraphs (2) through (7) below. Notwithstanding the above, those responsible for re-insurance may

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<sup>24</sup> Other than assets which are the re-insurer's share in the reserve and in pending claims.

<sup>25</sup> Regarding an insurer that manages a pension fund, this section is only relevant if it has a party responsible for re-insurance.

<sup>26</sup> If the chief risk officer also serves as the party responsible for re-insurance, he must document this information in writing.

submit the said report on an annual basis, provided that they report to the chief risk officer regarding significant changes related to information required in the said paragraphs on at least a quarterly basis.

- (2) The identification of the significant risks for the insurer's financial strength or to those insured by the pension fund, whichever is relevant, which are involved in the transfer of insurance risk to re-insurers, with a discussion of the risks relating to at least each of the following:
  - a) The financial strength of the principal re-insurers – pursuant to a public rating and other standards of measurement that the insurer shall determine;
  - b) The corporate governance of the re-insurers, to the extent this information is available to the insurer;
  - c) The distribution of the principal re-insurers' liabilities, to the extent this information is available to the insurer;
  - d) The distribution of the insurer's liabilities among the various re-insurers;
  - e) Disaster risks, including risks relating to the manner of the assessment of the MPL or other standards of measurements, in the insurer's various fields of activity;
  - f) The availability of re-insurance and a change in the rates for re-insurance.
- (3) A description of the size of the retention in the insurer's various fields of activity, with emphasis placed on activities in which the size of the retention deviates from the general policy established by the board of directors.
- (4) A description of the collateral received from the re-insurers, including letters of credit and deposits.
- (5) Quantification of the exposure and assessment of the potential impact of the significant risks identified pursuant to section 6c(2) above, on the future financial condition of the insurer or on those insured by the pension fund, whichever is relevant, according to standards of measurement to be defined by the insurer and throughout future periods that it determines. A detailed description of the manner of the assessment, including the methods, standards

of measurements, duration of future periods, data and assumptions used in the assessment, with a discussion of the limitations of the assessment and of the possible distortions in it, will be attached to the assessment described above.

- (6) A detailed description of the insurer's measures for controlling and following up the significant risks identified pursuant to section 6c(2) above and the combination of these measures.
- (7) Their recommendations regarding the improvement of the manner in which the said significant risks are managed.

**d. Transmission of information from the internal auditor and from the auditor to the chief risk officer**

- (1) Every report delivered by an insurer's or a pension fund's internal auditor which is related to the management of the risks involved in the activities of the insurer or of the fund, whichever is relevant, will be transferred to the chief risk officer, at the internal auditor's discretion.
- (2) An insurer's or a pension fund's auditor and internal auditor will deliver to the chief risk officer a copy of every written announcement delivered to the insurer's CEO, CFO<sup>27</sup> or board of directors, which is related to the lines of insurance business for which the chief actuary was appointed, and which deals with a condition, event or transaction that requires correction and which can affect the financial strength of the insurer or of the pension fund.

**e. Deliberations at the board of directors**

- (1) The chief risk officer will be present at any deliberation of the insurer's board of directors dealing with a report submitted to the board of directors pursuant to section 5a (3).
- (2) The chief risk officer, the insurer's chief actuaries and the investments division manager, those responsible for re-insurance and the insurer's auditor will all be present at any deliberation of the insurer's board of directors dealing with a report submitted to the board of directors pursuant to section 5a (4), and any deliberation dealing with information delivered pursuant to sections 6a through d above.

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<sup>27</sup> Or to the person who serves in the position of the CEO or as the CFO, whatever the person's actual title is.

(3) The chief risk officer and the investments division manager will be present at any deliberation of the yield dependent investments committee dealing with a report submitted to the committee pursuant to section 5a(5).

**f. The right of the chief risk officer to receive information**

The chief risk officer may request and receive any document and any information which in his opinion is necessary for carrying out his function, and which is held by the insurer or by one of its employees, officers or by external consultants that it has engaged.

**7. Application**

The provisions of this Circular will apply separately to every insurer, including a managing company of a pension fund, and to every pension fund separately.

**8. Entry into force**

The provisions of this Circular will enter into force on the day of its publication.

**9. Transition**

a. Notwithstanding the provisions of section 8, the provisions of section 5a regarding the function of an insurer's or pension fund's chief risk officer will enter into force on the following dates:

- 1) Sections 5.a(1) – 5(a)(3)<sup>28</sup> March 31, 2007

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<sup>28</sup> Dealing with the identification of the risks, the assessment of the manner in which each risk is managed, immediate reports and their updates and the supervision of the corrections of the deficiencies.

- 2) Section 5.a(4)<sup>29</sup> – the first reports required will be submitted to the insurer by the following dates:
    - a) Regarding significant risks specified in section 5.a(1)(a)<sup>30</sup> – December 31, 2008
    - b) Regarding credit risks<sup>31</sup> - December 31, 2008
    - c) Regarding the other significant risks – December 31, 2007
    - d) Regarding section 5.a(4)(b)(5)<sup>32</sup> – December 31, 2007
  - 3) Section 5.a.(5)<sup>33</sup> – the first required report will be submitted by December 31, 2007
- b. Notwithstanding the provisions of section 8, the provisions of section 6.a regarding the transmission of information from the chief actuary to the chief risk officer will enter into force on the following dates:
- 1) Sections 6.a (2) and (3)<sup>34</sup> - March 31, 2007
  - 2) Section 6.a. (4)<sup>35</sup> - September 30, 2008
  - 3) Sections 6.a (5) and (6)<sup>36</sup> - September 30, 2007
- The information that is required in writing will be delivered for the first time by the dates stated in paragraphs (1) - (3) above.
- c. Notwithstanding the provisions of section 8, the provisions of section 6.b regarding the transmission of information from the investments division manager to the chief risk officer will enter into force on the following dates:
- 1) Sections 6.b (2) and 6.b (5)<sup>37</sup> - March 31, 2007
  - 2) Section 6.b (6) and 6.b (7)<sup>38</sup> - September 30, 2007

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<sup>29</sup> Dealing with periodic reporting to the CEO and to the board of directors.

<sup>30</sup> Insurance and financial risks that can impact on the liability to insureds.

<sup>31</sup> Other than assets which are the re-insurers' share in the reserve and in the pending claims.

<sup>32</sup> Dealing with the assessment of economic capital.

<sup>33</sup> Dealing with reporting to the yield dependent investments committee.

<sup>34</sup> Dealing with the identification of risks.

<sup>35</sup> Dealing with the quantification of the exposure and assessment of the potential impact of risks.

<sup>36</sup> Dealing with the description of the measures for control and follow-up and recommendations for the improvement of the manner in which risks are managed.

<sup>37</sup> Dealing with the identification of risks, description of exposure and description of the potential impact of risks.

<sup>38</sup> Dealing with the description of measures for control and follow-up and recommendations for the improvement of the manner in which risks are managed.

The information that is required in writing will be delivered for the first time by the dates stated in paragraphs (1) - (2) above.

- d. Notwithstanding the provisions of section 8, the provisions of section 6.a regarding the transmission of information from those responsible for re-insurance to the chief risk officer will enter into force on the following dates:

- 1) Sections 6.c (2) and 6.c (4)<sup>39</sup> - March 31, 2007
- 2) Section 6.c (5) and 6.c (7)<sup>40</sup> - September 30, 2007

The information that is required in writing will be delivered for the first time by the dates stated in paragraphs (1) - (2) above.

- e. **An insurer will submit to the Insurance Commissioner, by February 1, 2007, a detailed action program for the implementation of the provisions of this Circular relating to the chief risk officer.**

Yadin Antebi  
Commissioner of Capital Markets, Insurance and Savings

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<sup>39</sup> Dealing with the identification of the risks, description of the size of the retention and a description of the collateral received from the re-insurers.

<sup>40</sup> Dealing with the quantification of the exposure and assessment of the potential impact of risks, description of measures of control and follow-up and recommendations for the improvement of the manner in which risks are managed.