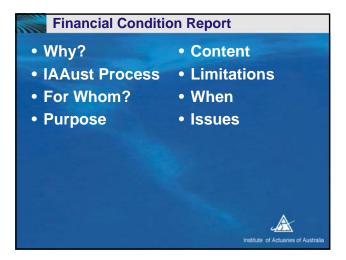
XIV GENERAL INSURANCE SEMINAR

Financial Condition Reporting

Financial Condition Reporting Task Force



Why do we need FCRs

- HIH Royal Commission
 -HIH Board not properly informed
 -Commissioner recommends FCR
- Government accepts
 recommendation
- IAAust sets up task force



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What is the IAAust Process

- Task Force prepares draft
- Informal discussion
- Revised draft to Professional Standards Committee
- Exposure Draft
- Revision
- Adoption

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Who is the FCR for?

- Board
- Management
- Auditors
- APRA
- Not a public document

Purpose of the FCR

- Board understanding
 - Financial condition, as seen by actuary
 - Principal risks to solvency and profit
 - Recent and prospective performance

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- Current and prospective capital adequacy
- Implications and requirements of business plan

Content of Standard

- Preliminaries
 - -Combines Standard and Guidance
 - APRA Standard not yet available
 - Draft Standard may need to change
- Purpose and scope
- Content of FCR



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Style of FCR

- No fixed format
- Emphasis on what is most material
- Constrained by what is practical
- Other issues
 - Auditor
 - Branches
 - Groups
 - Timing

What does an FCR include?

- Setting the scene
 - Background
 - -Recent experience

What does an FCR include?

- Valuation
- -Liabilities
 - Actuarial valuation GPS 210

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- Other
- -Assets
 - Insurance
 - Investments
 - Other

What does an FCR include?

- Financial management
 - -Asset/liability matching
 - -Statutory solvency
 - Capital adequacy
 - -Capacity



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What does an FCR include?

- Premium rating
 - -Adequacy of past estimates
 - -Adequacy of past premiums
 - Premium setting

What does an FCR include?

- Miscellaneous
 - -Reinsurance
 - Planning and budgeting
 - -Information systems

Limitations of an FCR

- Actuary's role limited in general insurance
 - -Compare life insurance
 - -Cannot cover all aspects
- Exclusions
- Reliance on management and auditor

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• Timing issues

General exclusions

- Investment policy*
- Investment quality
- Operational risk
- Premium rating*
- Product
 development
- Underwriting
- Expenses*
- Agents balances

Claim handling

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- Non-insurance liabilities
- Reinsurance*
- Information systems*
- * Some aspects of these are included

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When are FCRs required?

- IAAust process aims to be able to have standard ready by 30/6/2004
- Cannot be completed until APRA determines its requirements
- Phase-in needed

Issues for Discussion

Reliance

-Actuary

- Matters within actuary's responsibility
- -Working papers / Auditor
- Financial information
- -Insurer
 - Policy, etc., matters

Issues for Discussion

Scope of FCR

- Fixed (minimum) content
- Variable depending on actuary's role and responsibilities

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 Comment on other matters of concern

Issues for Discussion

- Scope of FCR
 - -Are the inclusions and exclusions
 - appropriate?
 - Capital targets
 - Planning
 - Investment policy



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