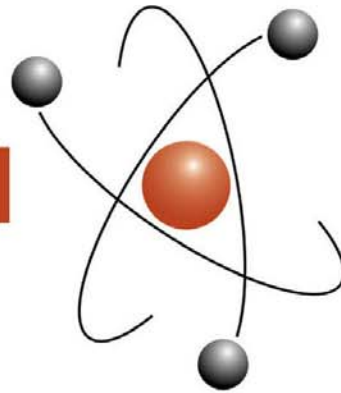


S U S T A I N



A B I L I T Y

ACTUARIES AND THE FUTURE

Financial Condition Reports in General Insurance - The Latest Steps

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Overview

- **Background & purpose**
- **Development of standards to May 2005**
- **APRA's GPS 310**
- **APRA's GGN 310.1**
- **Scope of FCR**
- **Discussion points**
- **Final words**

Background & purpose

- **HIH Royal Commission recommended an FCR (accepted by Government)**
- **APRA asked IAAust to develop standards**
- **Overview of key risks and issues facing insurer**
- **Important input into decision-making by Board/senior management in respect of operations of insurer**

Development of standards to May 2005

Item	Action	Date	Outcome
1	Formation of FCR for GI Taskforce	Dec 2002	Production of IAAust standards
2	HIH Royal Commission Report	Apr 2003	Recommendation for FCRs (#41)
3	Discussion Draft PS3XX	Nov 2003	Presented at IAAust GI Seminar
4	APRA Stage 2 Reforms	Nov 2003	Proposal for FCRs (#2.13)
5	Consultation with members, APRA, ICA, accountants	2004	Modification of IAAust standards in response to input
6	Discussion Draft PS305/GN355	Feb/Mar 2005	Horizons meetings with membership
7	APRA GPS 310/GGN 310.1	May 2005	Requirement for FCRs (#26) Submissions by 5 Aug 2005 Release date proposed Jan 2006

APRA's GPS 310

- **Approved Actuary's primary roles**
 - Advise on valuation of insurance liabilities (LVR)
 - Objective assessment of overall financial condition (FCR)
 - Advise on other matters insurer considers appropriate
- **Timing issues**
 - Use of FCR and LVR in preparing statutory accounts
 - LVR to the Reviewing Actuary for peer review
 - FCR and LVR to APRA with yearly statutory accounts
- **Exempt insurers**
 - Require no Approved Actuary, FCR, LVR, no peer review, but must still value liabilities according to GPS 310.2
 - Exempt if gross liabilities < \$20m, no material long tail liabilities, attest criteria to be met in next 12 months



APRA's GGN 310.1

- FCR must assess key risks and issues impacting financial condition of insurer
- **Insurance group may submit a single over-arching FCR**
- Consideration of financial position of corporate group to which the insurer or insurance group belongs
- **For foreign insurers require FCR for Australian branch operation, with consideration of H.O. financial position**
- Reasonable steps to verify the consistency, completeness and accuracy of data provided with financial and other records
- **Where the Approved Actuary is relying on work undertaken by other actuaries, satisfaction as to assumptions and methods**
- Level of detail in FCR depends on size and complexity of operations of insurer and considerations of materiality



Scope of FCR (ref GPS 310 par 44)

- **Review of the insurer's recent experience;**
- **Summary of the key results of LVR;**
- **Assessment of adequacy of past estimates for insurance liabilities;**
- **Outline and assessment of asset and liability management (was "matching" in Nov03 Stage 2 Reforms), including insurer's investment strategy (was also "assess suitability of assets");**
- **Assessment of current and future capital adequacy with discussion of insurer's approach to capital management;**
- **Advice in respect of premium adequacy (was "premium setting");**
- **Assessment of the suitability and adequacy of reinsurance arrangements; and**
- **Assessment of the suitability and adequacy of risk management framework (was "systems and controls").**



Discussion points

- **Commentary on insurer's non-insurance liabilities, in particular any known contingent liabilities (ref GGN 310.1 #19c)**
- **Commentary on asset valuation methods used by the insurer and on any significant changes (#19d)**
- **Continuous compliance with MCR over the past year (#22)**
- **Assessment of capacity to meet the MCR and capital targets over the next three years, including quantitative and qualitative stress and scenario testing (#23)**
- **Documentation of reinsurance arrangements and existence and impact of any limited risk transfer arrangements (#28, #29)**
- **Commentary on adequacy of risk management framework of insurer (#30)**



Final words

- **IAAust PS305 to be revised, taking regard of:**
 - **Horizons meetings discussions and submissions**
 - **Issues of consistency with APRA GGN 310.1, which may be withdrawn once sufficiently covered by IAAust standard (p18)**
- **FCR requirements from beginning of financial year after Jan 2006 (p7)**
- **Reports due to APRA covering prior financial years included (p7)**