

# Financial Condition Reporting

Financial Condition Reporting  
Task Force



## Financial Condition Report

- Why?
- IAAust Process
- For Whom?
- Purpose
- Content
- Limitations
- When
- Issues



## Why do we need FCRs

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



## What is the IAAust Process

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



### Who is the FCR for?

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



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### Purpose of the FCR

- Board understanding
  - Financial condition, as seen by actuary
    - Principal risks to solvency and profit
    - Recent and prospective performance
    - Current and prospective capital adequacy
    - Implications and requirements of business plan



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### 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



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## What does an FCR include?

- **Setting the scene**
  - Background
  - Recent experience



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## What does an FCR include?

- **Valuation**
  - **Liabilities**
    - Actuarial valuation – GPS 210
    - Other
  - **Assets**
    - Insurance
    - Investments
    - Other



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## 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



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### 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**
- **Timing issues**



### General exclusions

- Investment policy\*
  - Investment quality
  - Operational risk
  - Premium rating\*
  - Product development
  - Underwriting
  - Expenses\*
  - Agents balances
  - Claim handling
  - Non-insurance liabilities
  - Reinsurance\*
  - Information systems\*
- \* Some aspects of these are included



### 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



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## Issues for Discussion

- **Scope of FCR**
  - Fixed (minimum) content
  - Variable – depending on actuary's role and responsibilities
  - Comment on other matters of concern



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## Issues for Discussion

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



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