



Institute of Actuaries of Australia

XVth GENERAL INSURANCE SEMINAR

Evolution of the Industry

Financial Condition Reporting for General Insurers - A Case Study

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Introduction

- Development of Regulatory Requirement for a Financial Condition Report
 - Royal Commissioner's report on HIH
 - Natural development of “value adding” tool
- History at IAG
 - Actuarial group's initiation
 - IAG Re as a “guinea pig”
 - Full Group extension at 12/04
 - Repeated at 6/05
 - Forward-looking focus



The IAG Re “Experiment”

- Learn from previous internal experience
- Business input
- What does “Financial Condition” mean?!!
- Initial report structure and headings
 - “Traditional” actuarial areas
 - Areas of increasing actuarial influence
 - But also “non-actuarial” issues
- Obtain a series of iterations



The IAG Re Experiment (cont)

- Feedback from the business
- Feedback from the Board
- Key areas of value
 - “Linkage” between different areas of management of the business
 - Presentation of the “whole business story” at Board level



The IAG Re Experiment (cont)

- Main lessons
 - Not enough early business input
 - Inappropriate structure
 - Not enough thought about “Exec Summary”



Personal Lines Report

- Structure of the report
- Scope of inputs
- Feedback from the business
- Feedback from the Board



Personal Lines Report (cont)

- Timeframe
- Multiple entities
- Strengths
- Weaknesses



Commercial Lines Report

- “Commercial Lines” background information
- Development of the Commercial FCR
- Underlying components
 - Underlying philosophy
 - Structure of report
 - Definition of “financial condition”

“Financial condition refers to the sustainability of the business - its continued ability to achieve financial objectives and its long term business aspirations.”

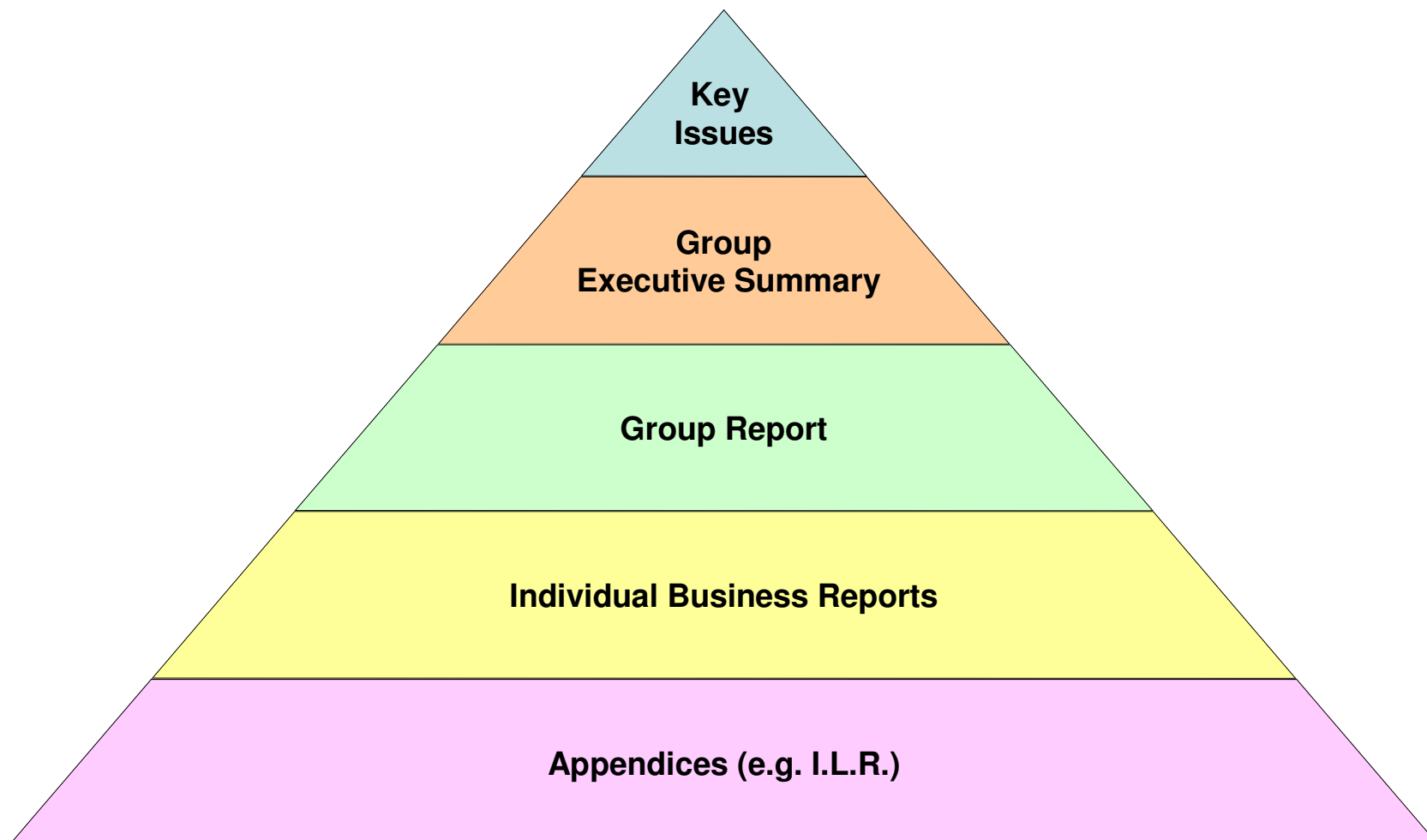


Commercial Lines Report

- Report structure
- Lessons learned
 - Practical lessons
 - Relationship with management



Group Report





Group Report (cont)

- Liaison with business report production
 - Parallel reporting exercise
 - Recognition of key Group issues
 - Avoidance of duplication and “gaps”
- “Top down” and “bottom up” linkage
 - Senior management feedback on “dummy list”
 - Meetings to discuss final content



Group Report (cont)

- Board presentation
 - Limited largely to “top 2 layers” of pyramid
 - Board feedback for improvement



Findings

- Timing
- Early business involvement
- Treat the process as evolutionary and the FCR as a “Living document”
- “Top down” and “bottom up” linkage
- Clear differentiation of extent of treatment of each issue.
- Philosophical and practical planning