

GENERAL INSURANCE STUDY GROUP

ACCOUNTING STANDARDS FOR GENERAL INSURANCE COMPANIES

Following discussion on reserving standards at the Bristol Seminar of GISG in November 1983, an informal working party of accountants and actuaries was established to consider matters of mutual interest to the professions in the general insurance area. Discussion centred on the possible content of an accounting standard for general insurance companies and this led to a discussion paper which was tabled for the Bournemouth Seminar in September 1984.

Discussions within the industry were known to be at an important stage, so wider publicity for the ideas of the working party was held back for a little while until March 1985, when the discussion paper and a summary of agreed points were issued with a press release. These documents received a certain amount of press coverage, and were subsequently tabled at a joint meeting of the Students' Society and the London Young Chartered Accountants Group on 14 May 1985.

The views of the informal working party had been passed at an early stage to the relevant committees of the (then) BIA, who were considering a possible Statement of Recommended Practice (SORP), and most of the ideas are thought to be covered by drafts currently under discussion prior to wider consultation.

The working party has continued to meet and has considered various aspects of professional reporting on general insurance companies, including the scope for an "appointed" professional with a general insurance company to take responsibilities akin to those of an appointed actuary in a life company. The accountant and actuary members of the working party differed in their views as to the desirability or necessity of such a development. Much hinges on the role which the auditor is considered to play under the present regime, since he effectively certifies that provisions have been properly established.

Further guidance as to what is generally acceptable practice, through the promulgation of a SORP, would greatly assist the auditor in this role. A SORP would not be directly applicable to DTI returns, but regulation 52 of the Insurance Companies Regulations 1981 should ensure that it is read across. The SORP

would not, however, be a reserving standard as such. Much of it will no doubt relate to recommended accounting practices and to the question of disclosure.

The auditors' report in the DTI returns does not in itself certify adequacy of provisions but only that certain forms "have been properly prepared in accordance with the Regulations" and that "it was reasonable" for the Directors to have given the certificate they have signed. It was felt that this formulation laid inadequate emphasis on the responsibility of the auditors to satisfy themselves as to the adequacy of the provisions and that this aspect could with advantage be strengthened. The working party has written to the DTI in the terms of the attached letter.

Comments are welcomed on the specific proposals contained in the letter and on this issue in general.

September 1985

Southwark Towers
32 London Bridge Street
SE1 9SY

30 August 1985

VF Lane Esq
Department of Trade and Industry
Sanctuary Buildings
16-20 Great Smith Street
LONDON
SW1P 3DB

Dear Mr Lane,

GENERAL INSURANCE BUSINESS : ADEQUACY OF CLAIMS RESERVES

As you know, the London Young Chartered Accountants Group and the Institute of Actuaries Students Society have a joint working party on general insurance matters. During recent months we have been considering the question of the adequacy of claims reserves reported by UK companies writing general business. The experience of the working party is that such reserves are often calculated on a rough and ready basis and that, in several cases, this has led to inadequate reserving.

The working party has considered ways in which the situation might be improved. Our conclusion is that progress would be made by requiring the directors to explicitly consider reserving but that it is not yet appropriate to set out required bases of reserve determination in law. Accordingly, we make the following recommendations for your consideration:

1. The Directors' Certificate required by Regulation 26(a) of The Insurance Companies (Accounts and Statements) Regulations 1983 should be amended to include the following paragraph:

"Claims reserves have been established, on the basis of information available at the date of completion of the returns, that are considered to be sufficient to ensure that funds are available to enable the estimated costs of all claims expected to arise in respect of business written by the end of the financial year to be met at the times they are estimated to fall due."

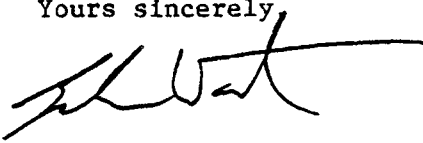
This strengthening of the form of the Directors' Certificate would focus attention on the question of claims reserving.

30 August 1985

2. The basis on which claims reserves have been established should be clearly stated in a note to the returns furnished to the Department of Trade and Industry pursuant to Section 17 of the Insurance Companies Act 1982.
3. The statement referred to in recommendation 1 should be included within the scope of the auditors' report required by Regulation 27 of The Insurance Companies (Accounts and Statements) Regulations 1983.

We would be pleased to discuss our proposals with you if this would be helpful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Graham Ward', with a long horizontal flourish extending to the right.

Graham Ward

(Chairman of the Working Party)

cc P Turl Esq