

ACTUARIAL REPORTING IN
GENERAL INSURANCE

Prepared by:

Working Party for the General Insurance
Convention 1989

CONTENTS

<u>Section</u>	<u>Page</u>
<u>SUMMARY</u>	
1. Purpose & Background to the Report	2
2. Summary of Main Findings	4
<u>METHODOLOGY AND DETAIL</u>	
3. General Approach and Methodology of the Working Party	8
4. General Philosophy Towards Supervision and Actuarial Reporting	10
5. <u>Sub-Group Report</u> : The Current and Historic role of Actuaries in General Insurance	16
6. <u>Sub-Group Report</u> : Actuarial Reporting in General Insurance in Countries Other than the UK	28
7. <u>Sub-Group Report</u> : Professional Issues	39
8. <u>Sub-Group Report</u> : Statements of Opinion	43

Section 1

PURPOSE & BACKGROUND TO THE REPORT

A Working Party was formed following the 1988 General Insurance Convention in Harrogate to consider actuarial reporting in general insurance. The prime aim of the Working Party was to prepare this report for discussion at the 1989 Convention.

Actuarial reporting in general insurance is a topic that the Convention has considered on several occasions in the past, although 1988/9 was perceived, quite rightly, to be a period of heightened activity and debate. In a letter dated 20 July 1988, Geoff Hunt invited observations concerning the role of DTI returns from the Institute of Actuaries and the insurance industry in general as part of a review commissioned by the government. Exhibit 1 displays a copy of this letter from Geoff Hunt, who was seconded to the DTI to carry out the review.

A separate working party was established to look at possible changes to the specific content of DTI returns and its relevance. It was always envisaged that any preliminary thoughts of both working parties would be communicated to Geoff Hunt at an early stage. It was to be made clear, however, that neither the Working Party nor the GISG formally represent the views of the Institute of Actuaries.

The Working Party consists of 14 actuaries actively working in general insurance (see Exhibit 2). The group was deliberately chosen to include people working actively for direct writing offices and for reinsurance offices and also consultants, thus representing a wide range of backgrounds and views.

The Working Party chose to look at actuarial reporting on solvency in the public domain only. We regarded this as a very large subject and did not attempt to cover it comprehensively. This report covers the following areas:

- General philosophy towards supervision and actuarial reporting (Section 4)
- Current and historic role of actuaries in general insurance (Section 5)
- Actuarial reporting in other countries (Section 6)
- Professional issues (Section 7)
- Statements of Opinion (Section 8).

In Section 3 we give a brief description of the operation of the Working Party and its approach in the preparation of this report.

The Working Party would like to emphasise that this report has been prepared as a discussion document and would welcome a full and uninhibited debate at the conference.

Section 2

SUMMARY OF MAIN FINDINGS

1. The Working Party has considered actuarial reporting in the public domain for general insurance. This is a large subject. The working party has not dealt with all aspects of the subject and there is room for considerable extra work. Nevertheless the Working Party hopes that this report will form a background to a full debate within the Convention. Section 3 describes our method of operation.
2. One of the aims of the profession is to develop the role of actuaries within general insurance significantly further than it is today. The role should encompass reporting not only on reserve issues but also on the overall financial soundness of a general insurance company. The role should be very much along the lines of actuaries in life assurance although significant differences arise. These differences are explored further in Section 4.
3. The supervision of general insurance companies is particularly problematic. This arises because of the diversity of the business, the cyclical nature of profitability for many types of business and the significant risk of immediate and unpredictable adverse experience. Further, the collection of data in a prescribed form as in the DTI returns, would not allow an independent evaluation of reserves in many lines of business. The publication of voluminous returns could therefore give rise to false comfort.
4. There were two areas in particular where supervision could be improved:
 - Regular visits to companies - Greater understanding of the nature of the business would be obtained.

- The introduction of reporting by an independent expert on certain financial issues, but in particular the reserves - This is further developed in Sections 3 and 8. The Working Party felt that the actuarial profession was uniquely qualified owing to its strength, credibility within the industry and the experience and training of its members to undertake this work. Much was gained by having the actuary in-house within the company, although an external consultant actuary could also fulfil the requirements. The individuals, however, would need to be sensitive to the particular business and commercial pressures involved. It was believed strongly that in order to operate effectively the actuary would need statutory backing, particularly in order to carry out the investigations needed to issue any opinion statements.
5. Whilst the actuary has no statutory role at the present time actuarial reports are being requested much more frequently. Recently those companies writing US registered business have been required by the NAIIO to submit returns and "a Certificate of Loss Reserves" for all their business (including non-US). This requirement starts with the 1988 year end with returns and signed certificates due 15 September 1989. The Institute formed a small working party to consider the issues which has reported. See sections 5 and 8 for more discussion.
 6. The Working Party considered the development of the role of actuaries in general insurance to date. The role of the actuary was judged to have a long way to go before achieving a 'mature state' as, say, in the USA. Nevertheless, actuaries are involved at all levels of management within the industry and in all the key areas from rating through to reserving and wider issues of

financial soundness. Many organisations, however, make no or only slight use of actuaries in respect of general insurance.

The level of involvement also varies by the type of organisation, whether it is a direct writing office or a London Market company or indeed a Lloyd's syndicate. The trend, however, is towards a greater involvement of actuaries at all levels and in all aspects of the business.

Section 5 provides greater detail on these aspects.

7. We also considered the roles of actuaries indigenous in countries other than the UK. With notable exceptions of the US, Canada, Italy, and, for certain types of business, Australia and the Netherlands, actuaries carry no duties for public reporting nor indeed any statutory role within non-life insurance companies. The general trend, however, in most countries was for a greater use of actuaries in general insurance along the lines seen in the UK. In many countries the development was hampered by the lack of a strong recognised professional organisation. We explore this issue further in Section 6.
8. The Working Party felt that there was significant benefit to all the interested parties in introducing actuarial reporting initially as an opinion on the adequacy of the reserves and possibly of the solvency margin. In particular such a step may reduce the need for such large DTI returns and also enhance the quality of supervision of insurance organisations. Generally, it would be expected to increase the cost effectiveness of supervision and possibly improve the quality of data within companies. The Working Party therefore considered the form that an opinion statement may take. Section 8 discusses the issue further and provides some example wordings. These are presented here for discussion and debate. It was clear,

however, to the Working Party that a form of wording similar to that presented here should be acceptable generally. Special issues arise in respect of particularly problematic and uncertain claims projections; eg. asbestos related claims and environmental impairment liability claims in US reinsurance business and also for new classes of business. Their treatment is also discussed.

9. There were many detailed issues which the Working Party did not address. For example, whilst the Working Party felt that sufficient actuarial resources were available this was not verified by significant analysis. Also, changes would be needed to statute and regulation for the introduction of actuarial reporting. The working party did not consider in detail the interactions with other professionals, whether internal managers or directors, or external with advisers or auditors. The Working Party envisaged the need for a timescale of introduction of some 2-5 years. This was to allow companies to prepare themselves particularly in respect of the data preparation for the investigations required. We do not present here any suggested timescales for the introduction of new laws or regulations.

Section 3

GENERAL APPROACH AND METHODOLOGY OF THE WORKING PARTY

Initially, the Working Party sought, through discussion, some consensus concerning views on actuarial reporting. (This consensus also formed the basis of a letter dated 26 January 1989 sent to Geoff Hunt and subsequent discussions with him by representatives of the Working Party, namely Ken Larner, Colin Czapiewski, and Graham Masters.) The substance of the letter to Geoff Hunt is given in Section 4.

The Working Party then looked at further areas of research and work and prioritised where efforts would be most usefully placed. There are significant areas that the Working Party has not looked at, or has dealt with only very briefly. In particular we have not considered the history and main causes of insolvency (except cursorily), nor have we considered the adequacy of GN12 and the various elements of 'financial condition' that an actuary may possibly address.

Three sub-groups were formed to look at the following issues:

- The Current and Historic Role of Actuaries in General Insurance

This part of the work was based largely on discussion with other actuaries in the profession and collating readily available statistics. A full survey of actuaries was not carried out as this was beyond the resources available.

- Actuarial Reporting in Countries Other than the UK

Few countries in the world require formal public actuarial reporting with the notable exceptions of USA, Canada, Italy and, for some types of business, Australia and the Netherlands.

In order to aid a discussion of issues at the 1989 Convention, it was felt not only that the current formal position of actuarial reporting was important, but also that the trends should be considered. The Sub-Group made contact with actuaries from other countries and obtained their views. These are presented in Section 6.

- Statements of Opinion and Professional Issues

If actuarial reporting is to form part of the supervision of insurance and reinsurance operations in the UK then practical issues of implementation need addressing. This Sub-Group considered forms of statement of opinion on technical reserves that actuaries might feel comfortable signing. It also considered the role of actuarial reporting in the context of the supervision of insurance companies and the Companies Act accounts in more detail than the initial distillation of views given in Section 3. The results of this work are presented in Sections 7 and 8.

Section 4

GENERAL PHILOSOPHY TOWARDS SUPERVISION AND ACTUARIAL REPORTING

This section represents a summary of the preliminary discussions of the Working Party. The high level of consensus in the group was remarkable.

The Working Party looked at actuarial reporting in solvency in the public domain only. Our initial thoughts focused on companies. In later sections we consider issues for Lloyd's syndicates but only briefly.

Solvency was regarded as corporate. It can be threatened from many diverse directions. For example, unbearable levels of maintenance expense or under-reserving can cause creeping insolvency, an inadequate reinsurance programme or investment policy can cause immediate disaster, as can writing business at inadequate rates and fraud. There have been relatively few UK insolvencies in the past but it is almost axiomatic that all companies are at risk.

We believe the supervision of companies should aim to encourage financial soundness but leave companies free to innovate and compete. There should be, therefore, a common interest of company managements, the supervising authority and the actuarial profession in the long term profitability and health of the insurance industry.

The underwriter or ratemaker takes a special and key role in many general insurance companies in determining profitability and maintenance of solvency. The role is often essentially entrepreneurial. Market profitability is subject to cyclical movements varying by line and type of business. These points are particularly valid for the London Market which is of peculiar complexity and diversity. Supervision is therefore problematic yet is particularly necessary in view of the worldwide importance of the London Market.

By their training and by analogy with the roles of actuaries in life and pension industries, actuaries in general insurance prefer to consider the overall financial condition of a company rather than, say, reserve adequacy alone. The Working Party felt strongly that the thrust of reporting, whether actuarial or not, should cover all the elements of the financial condition of a company. We also felt that publishing data alone without a backing professional opinion fell short of the ideal.

The ideal is, therefore, a financial report specifically focused on solvency covering elements of, for example:

- Adequacy of reserves and provisions
- Appropriateness of assets in relation to liabilities
- Solvency margins in relation to risks undertaken.

The report would be comprehensive and recognise the inter-relationship between the elements. To carry weight, the report should be independent and we believe this means that it is prepared by an accountable individual from a strong credible profession and with statutory backing.

A strong profession needs a professional code which is enforced and followed, quality education and training, research and experience, if it is to maintain the confidence of the industry which is vital. These are all matters to which the actuarial profession has been giving attention with a view to ensuring that any actuary involved in this field has access to appropriate professional guidance. These are considered further in Section 7. The reporting individual may or may not be an employee of the company and carry out other duties. In our experience, much is gained by day-to-day knowledge from within a company.

We believe a report prepared by an experienced actuary or equivalently qualified and experienced person would add considerably to the long term stability of the industry and not detract from its ability to compete.

However, this is well beyond the current position. Providing the information that would be requested for such a report would be onerous to certain companies in the short term. Some companies have little or no actuarial involvement in their management, notwithstanding the fact that more actuaries have played larger roles in more companies. The Working Party felt that a staged approach was appropriate and that the priority area for the industry was for a specific report on reasonableness of claims reserves and other insurance provisions. Again, to carry weight, the report should be independent, prepared by an accountable individual from a strong credible profession with statutory backing.

We envisaged that a delay of, say, 2-5 years between the publication of regulations and full reporting would be needed to give companies time for planned moves in this direction.

Actuaries are recognised in the area of reserving as having experience, knowledge, and training and would be the natural choice of reporting individuals, although again transitional arrangements might well be needed and similarly qualified and experienced individuals as approved by the DTI should not be precluded by regulation.

The report on reserves would form part of the regulatory framework and therefore a summary with supporting information appears most appropriately placed in the DTI returns, although an opinion letter could form part of the Companies Act accounts. The full content of the report would be available to the DTI.

The report may include, for example, comments on:

- Adequacy of data
- Assumptions used
- Caveats
- Nature of business and exposures
- Nature of investigations carried out
- An opinion letter.

In Sections 7 and 8 of this report, we expand further on the preferred content of such a report.

The existence of such an annual report may lower the priority of showing as many figures as the current DTI returns. However, no report prepared once a year can stop insolvencies. Also, for most lines of business reserves can never be stated as adequate and certain to cover future liabilities; they can, however, be reasonable and a proper provision under generally accepted principles of reserving. The wording of any opinion would therefore be crucial. Again, this is further discussed in Sections 7 and 8.

There were a number of further points that the Working Party discussed, particularly with regards to the current DTI returns. Another working party is dealing with the detailed contents of the DTI returns. The Working Party, however, did consider some of the principles.

We regarded the purpose of the DTI returns primarily to aid the supervisor in monitoring insurance companies and secondly to provide information to third parties. The third parties, for example, may either be investment analysts or actual or potential new market entrants lacking any statistics or market data of their own. One purpose of the original DTI returns was to enhance the quality of management information generally.

Data for a review of reserves or provisions are different from data for accounting purposes, although the two must be reconcilable. Where reserves are discounted for future investment income, special attention will need to be paid to the nature of the assets. Also, for certain lines of business the Working Party felt that adequate reserving data could not be prescribed anyway. This is particularly true for certain London Market reinsurance business and much of the Lloyd's reinsurance market. The role of discussions with the supervisor and an independent professional report on reserves clearly becomes more important in this case.

Where a company moves into a new line of business outside of its experience, special problems arise. The financial significance in relation to the resources available need careful consideration and would place special responsibility on the reporting individual.

These features differentiate DTI reporting on certain general insurance lines very clearly from those of life assurance. A principle against which to judge data in returns in life assurance was whether another actuary could independently assess, albeit approximately, the reserves of the company. This is clearly much harder in general insurance. The reporting individual could potentially be placed under greater strain. Greater reliance would also need to be placed on the supervisory authority raising questions with the individual who has prepared the report.

The Working Party felt that "freedom with publicity" was an acceptable guiding principle. However, there may be areas where publicity is problematic if, for example, it calls into doubt solvency of a company incorrectly or affects the company's competitive position. Some care and sensitivity would therefore be required in drafting the full content of any report within the DTI returns. This is further discussed in Sections 7 and 8.

Special problems arise in the supervision of Lloyd's where solvency is demonstrated to the supervising authority only in the aggregate. To some extent, therefore, for supervisory purposes public reporting on solvency and financial condition of a Lloyd's syndicate may be considered to carry full force only at the aggregate level. However, for the purpose of internal regulation it would be impossible for an aggregate opinion to be given without having regard to the financial soundness or solvency of individual syndicates. Special problems arise for the very smallest syndicates and the Working Party recognised that the collation of adequate data and analysis would be particularly onerous. In Section 4 we discuss the level of actuarial involvement historically in general insurance and discuss this issue further.

Much of insurance and in particular reinsurance has always been international in nature. London has for many, many years been possibly the most significant international insurance centre of the world. This raises the possible issue of reciprocity for the recognition of professional reporting between supervisory authorities in different countries. This is already an issue between the USA and the UK in respect of opinion letters required on all the business written by UK companies if they write US surplus lines.

Also, the Working Party felt this matter would be a continuing and growing issue in the context of increasing cross-border activity in the European Community. We discuss these issues further in Section 6.

Section 5

SUB-GROUP REPORT: CURRENT AND HISTORIC ROLE OF ACTUARIES IN GENERAL INSURANCE

Actuaries have, for a long time, carried a statutory role in life assurance and pension business operations. The profession, therefore, is highly visible and maintains a strong reputation for providing independent advice of a high quality. Even when they are employed the advice is regarded as objective and independent. The depth of experience and training is generally recognised as is visibly evident by the number of actuaries holding senior positions within life offices. To a large extent, therefore, the role of actuaries in these industries has obtained what might be termed its 'mature state'.

In the UK general insurance industry, however, the role of actuaries is still very much developing and no formal statutory role yet exists for the profession. The Working Party felt therefore that a study of the development of the actuarial role in general insurance and of current trends would be particularly important. Actuaries, by the depth of their training in both technical and business areas, often become involved in very diverse areas. The Working Party sought to understand where the need for actuarial skills was greatest. Further, the Working Party sought to examine some of the reasons underlying current trends.

All these issues are addressed in this section of the report. Much of it was prepared on the basis of brief telephone discussions with other actuaries. It was found that the marketplace for actuarial skills is very active and this section may form a useful backdrop to a discussion at the Convention.

Historical Perspective

Historical involvement in UK general insurance can be traced back to papers on fire insurance in 1879/80 and in Workers Compensation in 1902/3. Whilst individual actuaries have been involved in general insurance throughout the early part of the 20th Century, in the UK very little additional interest appears to have been shown until after the 2nd World War.

This might be contrasted with the development of the actuarial profession in the USA. Here the actuarial profession split into the Casualty Actuarial Society (established in 1914) which deals specifically with general insurance (or in the US jargon property and casualty insurance) as a separate actuarial body from the Society of Actuaries dealing with life and pensions. The existence of a separate casualty actuarial society with its own separate membership led to the growth in available literature. In the context of development of the role of actuaries in general insurance, it is reasonable to judge the US actuaries as having attained the 'mature state'.

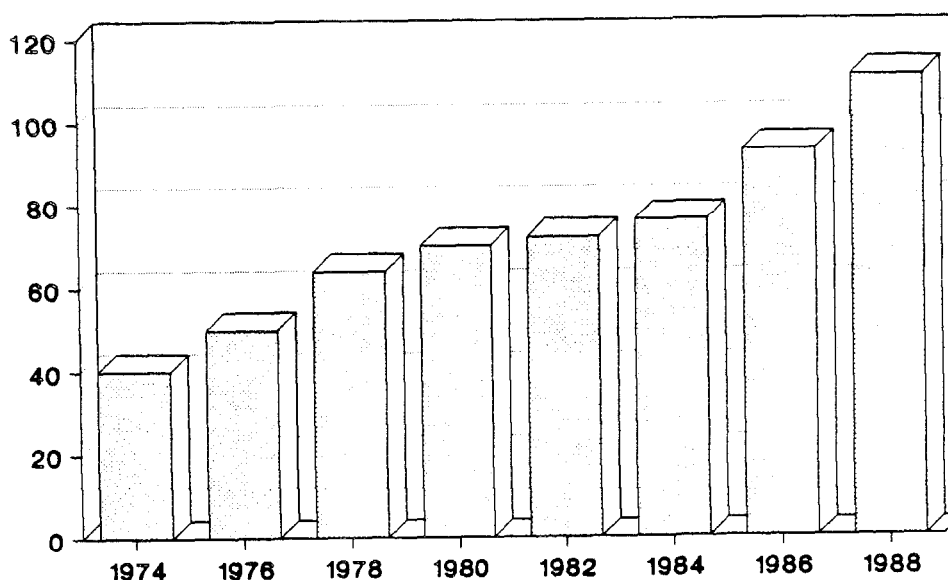
The development of the actuarial role within general insurance in the UK should also be considered alongside the development of roles in other European countries in particular. The actuarial professions in many of the European countries are organised in a very different way from the UK or US and this has had a significant impact on the development of actuarial science and the various roles that actuaries play in business life. Most of these issues are considered in the next section.

It is worthy of note that ASTIN was founded in 1957 to provide a forum of discussion of general insurance views internationally, but particularly between European actuaries.

The General Insurance Study Group (GISG) was formed in 1974 from a small group of active individuals all involved in general insurance. The GISG maintains an informal status in relation to the Institute of Actuaries. The GISG provides a very useful forum for discussion of issues such as those presented in this paper. Its initial intent was to generate actuarial literature and also to facilitate the sharing of experiences of actuaries, somewhat isolated and alone, operating in different insurance companies.

From 1974 when around 40 people attended the first meeting in Norwich the number of attendees at the annual Convention has now risen to well in excess of 100. The growth seen in attendance may be regarded as a useful index of the growth in the number of actuaries involved in general insurance.

General Insurance Convention Number of Attendees



Further networking between actuaries in general insurance occurred through the GIRO Bulletin which carries a wide circulation list.

Until 1978, general insurance was not recognised as a separate subject for study within the Institute of Actuaries examination syllabus. Prior to that date the final professional exams did include an advanced statistics paper which was optional, but the number of people taking up this option was very small. Also the syllabus for the advanced statistics paper was not directly oriented towards general insurance. The introduction of general insurance into the syllabus in 1978 gave it full status alongside life assurance, pensions and institutional investment. At that time, however, the Faculty of Actuaries decided not to introduce general insurance as a final subject in the examinations, possibly owing to the very small number of Faculty members working in general insurance.

The last decade has seen strong activity and development in all areas of general insurance business. Possibly the major growth area has been within the London Market where it has been suggested that the number of actuaries in 1980 was only 1 or 2, with 18 in 1985 and over 50 now.

The London Market and Lloyd's represent possibly the most significant international insurance market in the world. It deals with a significant proportion of the world's direct and reinsurance business. The degree of actuarial involvement at Lloyd's has been very small until recently. Around 1982 Benjamin and Eagles were asked by Lloyd's to put forward an alternative minimum reserving system and their work is described in JIA 113(II). At around the same time one of the larger managing agencies employed an actuary to work full-time on one syndicate.

The role of actuaries in each of the general insurance markets has developed very fast in recent years. However, by no means should the role of the actuary in the industry, be regarded as having attained a 'mature state'. Below we consider the current involvement of actuaries.

Current Involvement

Whilst categorisation by employer is not always wholly appropriate for such an exercise, it does provide a useful framework in which to discuss the role of the actuary.

Based on attendance at the 1988 General Insurance Convention we estimate the proportion of actuaries working in each segment of the industry as:

Table 5.1

Actuaries in General Insurance

● Direct Writing offices	40%
● London Market/Lloyd's/Reinsurers	20%
● Consultants	30%
● Others (GAD, Education, Stockbrokers, etc	10%
	<hr/>
	100%
	<hr/>

There has been a growth in the proportion of consultants which may give some guide as to the level of industry recognition given by the buyers of actuarial advice.

The Working Party carried out a telephone survey of actuaries to gauge the extent of actuarial involvement. Much of what follows is based upon this survey.

Reporting procedures for employed actuaries varied widely. Some were the Chief Actuary or Managing Director or reported to one of these people or to the Financial Controller, who was often an accountant. Actuaries also reported to Underwriters and occasionally Claims Managers. Within Lloyd's at the present time the 2 largest managing agencies employ in-house

actuaries with wide ranging responsibilities across most of their syndicates. Also, the Corporation of Lloyd's has recently recruited an actuary. The majority of syndicates using actuaries use consulting actuaries. Actuaries are therefore found at all levels, often playing substantially different roles in different organisations.

It is not easy to assimilate information on the number of companies/syndicates that have actuaries in-house or seek actuarial advice from consultants. In the former case the parent company may have actuaries for reference, whilst in the latter some companies were reticent about their use of outside consultants. Also, the level and degree of advice obtained varies considerably between organisations. We provide the following table as a guide to the usage of actuarial advice.

Table 5.2

Organisations Enjoying Some Actuarial Involvement

<u>Type of Organisation</u>	<u>% by Number</u>	<u>% by Premium</u>
● Lloyd's Syndicates	30	60
● London Market/ Reinsurance Cos.	20	60
● Direct Writing offices	20	70

The table needs careful interpretation since different organisations may use actuaries in different areas of operation.

It is clear, therefore, that the larger organisations tend to make more use of actuarial advice than the smaller; also that the number of organisations with no actuarial involvement is very large.

Also, for this report we are considering actuarial reporting in the public domain which largely revolves around issues of reserving and levels of solvency shown in the balance sheet. This represents only one type of actuarial involvement and thus all the numbers in the table above should be regarded as over-stated for this purpose. Indeed, actuarial functions may vary widely and in some companies the actuary is actually excluded from the area of reserving.

The Work of the Actuary

We aimed to gauge both the depth and breadth of the work undertaken by actuaries.

Reserving

Although reserving may be seen to be the main reason for the actuary's employment, in some companies the actuary is excluded from this area. The level of involvement varies considerably from one company to another. Most of the larger companies will use actuaries to evaluate reserve strength - some companies control reserving levels centrally.

A growing number of smaller companies take actuarial advice though not always regularly.

Within Lloyd's the number of syndicates using consulting actuaries has risen sharply and is still rising. The principal impetus behind this has been the interest of the Inland Revenue in the reserving process. Typically, an actuary is initially called in to assist the syndicate which

has already set its reserves and which is negotiating tax treatment of the reserves with the Inland Revenue. In subsequent years the actuary's role tends to grow and he or she becomes involved at an earlier stage. The depth of advice given to each syndicate is slowly growing beyond giving opinions on reserves. It should be noted that the responsibility for setting reserves for Lloyd's syndicates always rests with the syndicate management. The actuary is just an additional source of information.

Within the London Market particularly, reserving will encompass the projection of claims and premiums both inwards and outwards and include cashflow projections. This naturally leads the actuary into other areas including advice on commutations.

Whilst the actuary has no statutory role at the present time actuarial reports are being requested much more frequently. Recently those companies writing US registered business have been required by the NAIIO to submit returns and a "Certificate of Loss Reserves" for all their business (including non-US) for US reporting statements. This requirement starts with the 1988 year end with returns and signed certificates due 15 September 1989. The Institute formed a small working party to consider the issues which has reported.

Premium Rating

There has been heavy involvement to the extent of diminishing the underwriter's traditional role in private motor and household for some but by no means all of the larger companies. Both in-house and consulting actuaries have been used. Other companies have used statisticians, possibly because they are cheaper and more readily available.

Somewhat surprisingly, very few motor syndicates at Lloyd's seem to use actuarial advice. In these competitive personal lines, market rate comparisons are becoming very important and

there is considerable scope for greater use of actuaries in this area.

There has been little practical involvement in commercial fire and accident classes except in a few companies in setting rating guidelines. There is virtually no involvement in the day-to-day underwriting or risk assessment in direct companies.

Creditor insurance rating is usually actuarially based and a few companies take actuarial advice for motor fleet and employers liability, particularly in the experience rating area. Some of the PMI writers use actuaries in rate setting and we believe the actuarial involvement may increase particularly as healthcare moves into the long term funding area.

In the London Market particularly, actuaries have some involvement in assessment of exposures and monitoring of under- or over-shooting premium budgets. This leads into other areas of work.

Data Management

Most companies employing actuaries will involve them in the design and redesign of management information systems. The main business problem confronting the London Market or Lloyd's actuary is the poor quality of the base data. Often, but by no means always, it is badly kept, badly coded, incomplete and corrupted by such matters as reinsurance recoveries. Also, for many types of business, particularly in the reinsurance area, development statistics are either not available or not segmented in sufficient detail. With the growth in computer technology and the ability to collate large volumes of data, the role of the actuary is growing and should continue to grow.

The lack of development and other appropriate data possibly limits the current position of actuaries, however.

Other Areas

Where a company does employ actuaries they will generally work on a variety of other topics concerned with the overall financial management. These may include the analysis and interpretation of results, financial planning and the evaluation of outwards reinsurance programmes.

In the London Market, actuaries, have become involved in the assessment of reinsurance programmes testing, various scenarios and the efficiency of the programme. In this area the security of reinsurers has become one of the concerns.

Other general insurance actuaries have become closely involved with strategic and corporate planning and there is also a significant presence within senior management teams of the larger UK companies.

Other Roles

Typically, any merger and acquisition activity involving an insurance company will make use of actuaries in many areas. They will be called upon possibly to produce a valuation of the companies and certainly to evaluate business plans encompassing all sides of the business including both administrative and financial areas. This work is often carried out by consulting actuaries because of their experience and independence, but in-house actuaries can also be used.

In regard to business planning, actuaries typically become involved in the presentation of new authorisations to the DTI.

Other Influences

Despite the impressive list above the extent to which actuarial techniques and practices are employed in the operational and financial management of UK general insurance organisations has not been as great as might be expected.

Even some of the larger composites have few or no general insurance actuaries in-house, preferring to rely on traditional techniques or statisticians, employing consulting actuaries where necessary. Traditional underwriters and claims managers still reign in many companies. Some notable exceptions have been influenced often by the background of parent companies, typically where the parent companies emanate from the US.

Whilst the above list is by no means complete it gives a picture of actuaries being involved in many areas but at varying depths. Often organisations only employ a single actuary and the number of actuarial trainees in general insurance is very limited at present. The depth of involvement, therefore, depends very much on the experience and focus of the individual. There is also considerable risk that individual actuaries are placed under serious strain and that the support mechanisms of the profession become especially important in this event, in the context of both training and professional conduct.

There has been growing pressure to use actuaries particularly in reserve assessment. The pressure for opinions on reserves is driven from a number of different directions including auditors, the Inland Revenue, parent companies, UK insurers registered in the US and the supervisory authorities. The emergence of particular problems areas (eg. asbestos related claims, environmental impairment liability claims in US reinsurance business or where traditional reserving techniques have proved inadequate) is also important. The difficulty of projection for the actuary in these areas should not be underestimated. Workable and practical solutions generally arise from further data collection, monitoring future development and sensitivity to business issues. The perceived independence of the actuary, whether in-house or external to an organisation, is important.

It has been suggested that in recent years the apparent high level of profits without having any actuarial assistance has dampened the growth in actuarial involvement and a real impetus in demand for actuaries will be gained from a market downturn during which investigations will be needed by management. We believe the failure of a significant insurer or reinsurer could crystalise opinions considerably.

Summary

In this section we considered the historic growth in the role of actuaries in general insurance. In no way should the present position of actuaries be regarded as a 'mature state'. Before this can be attained, more actuaries need to develop their experience, and actuarial skills and techniques need to be more widely recognised.

However, the strength of the professional training, the depth and width of the experience of not only individual actuaries but also the profession as a whole and the independence and objectivity inherent in the obligations of the profession are impressive. No other professional group appears capable of encompassing both the depth of technical expertise and the wider business experience. The Working Party felt that the question was not if actuaries would attain a 'mature state' in general insurance, but when. The Working Party is very interested in hearing the views of the Convention on this point.

Section 6

SUB-GROUP REPORT: ACTUARIAL REPORTING IN GENERAL INSURANCE IN COUNTRIES OTHER THAN THE UK

The Working Party considered that whilst the UK general insurance market has unique features, it must always be considered in the context of the international arena. In particular, London Market companies and Lloyd's syndicates write significant volumes of international business, much of it emanating from the US. Further, as the European Community develops its approach to cross border activity and regulation, then there may be a trend towards common reporting standards for all insurance operations. Clearly, in the context of actuarial reporting in the public domain all these issues are important.

The Working Party's approach at this stage was to seek to understand the role of actuaries within other countries and in particular to look at the trends and influences acting thereon.

This section has been compiled in the most part by contacting indigenous actuaries operating actively in the general insurance industry of the countries mentioned. The Working Party would like to express their sincere thanks to all those who contributed. Where possible we have sought to verify the content of this section but would appreciate any views from the Convention in those areas where individuals have special knowledge.

As will be noted, this section is compiled very much to gain a 'flavour' of the general trends and developments occurring, particularly in Europe but also elsewhere. In this context it is hoped that the omission of certain countries will not detract from the general conclusions drawn.

European Community

There is as yet no requirement for an actuarial opinion in draft EEC non-life legislation. In the following paragraphs we look at the status within individual countries.

Belgium

The Actuarial Diploma is a university degree but the term "Actuary" is not acknowledged by law. It is a 'scientific' university degree. The diploma is obtained after a postgraduate period of 2 years. Consequently, there is a deficiency in the legislation and all legal references to the profession make, strictly speaking, no sense.

Different associations of actuaries exist including a National Association, The Association Royale des Actuaire Belge (ARAB). There is also an association of independent consulting actuaries which is the only association providing professional guidance. None of these associations are recognised in legislation. Legislation for life insurance and pension funds uses the words 'should be subject to actuarial reporting' without actually defining an actuary is.

There are about 350 actuaries working in the Belgium market and ARAB has created a working party which is striving to obtain a legally protected professional status.

Denmark

Again, there is no statutory definition of the actuary.

France

There is no statutory definition of an actuary. There are 2 main actuarial institutes: The ISFA (Lyon) and the IAF (Paris). There is a proposal under consideration to unite them in order to carry more weight with the supervising authorities. There is also a third actuarial institute being set up at Strasbourg. There is no actuarial certification of non-life reserves, these reserves being the responsibility of the company's general manager. No change is expected in this procedure in the near future.

Germany

There are no regulations requiring the involvement of actuaries in non-life reserves, nor is there a statutory definition of an actuary. A number of practising actuaries are not members of the National Association (DGBM).

Some actuaries are involved in setting companies' reserves but in some instances published actuarial methods are used without the benefit of actuarial judgement.

Greece

There is no statutory definition of an actuary. The legislation for non-life insurance companies does not make any reference to actuaries and in practice the reserve requirements are left to accountants. There are no indications of any expected changes.

Italy

In Italy enrolled actuaries are required to certify non-life reserves and an enrolled actuary is one on the legal role of the National Order of Actuaries. There are fewer than 500 actuaries with the largest number operating on the pensions side, mainly in the state departments.

Since 1978 the main role of non-life actuaries has been to certify balance sheets of insurance companies. Such an actuary must be independent and external to the company. The actuary is actually employed by the revision or audit company and generally will not ever have set foot in the company itself. In practice only a handful of actuaries certify balance sheets and most are academics.

Exhibit 3 gives a layout of a typical actuarial statement which will be attached to the balance sheet. It should be noted that the assessment is of the correctness of any statistical, financial and future expenses assumptions rather than the precise correspondence of individual projections with the company's provisions. In effect, therefore, such certification may be regarded as a very broad reasonableness check rather than a full actuarial investigation.

Improvements in general insurance actuarial practice are expected in the future both from within the companies and on the supervision side, but much depends upon future legislation.

Ireland

Ireland generally follows similar procedures to the UK. Commonly actuaries operating in Ireland are Fellows of the Institute of Actuaries. There is no non-life regulation requiring actuarial reporting.

Luxembourg

There is no actuarial association and no statutory role for an actuary.

Netherlands

Responsibility for non-life reserves remains with the management of a company. However, we understand that in some

of the larger companies the practice is that the board of directors requires approval from the actuary. For disability lines, however, the supervisory authority require the application of strict actuarial methods and an actuary has to certify the calculations and has to make a statement about this.

The influence of the actuarial profession in non-life business has been developing over, say, the last 15 years. There are several actuarial committees set up in recent years used to prepare market statistical information. The largest companies tend to have actuarial departments while the smallest companies often use a consulting actuary.

It is believed that around 20-30 actuaries are working in non-life business or about 15% of all qualified actuaries. Often they work alongside econometrists or statisticians.

Portugal

Portugal has a national actuarial association and the actuary is defined in the Capital General Labour Agreement of the Portugese insurance industry. There are no requirements for actuarial involvement in non-life reserves, however.

Spain

There are no requirements for actuarial involvement in non-life reserves. However, in life companies an actuary has to be responsible for the calculation of reserves and published reserves must be certified by an actuary. The actuarial profession and its practice are regulated by decree that stipulates that the actuarial qualification recognised by the state, gives entitlement to carry out such functions as are attributed to the actuary. This decree also specifies that the actuary, and only the actuary, should resolve all questions relating to mathematical procedures and calculations in the field of insurance companies.

OTHER EUROPEAN COUNTRIES

Austria

We understand that in general Austria follows German practice.

Switzerland

Only in the field of employee benefit programmes is the position of an actuary defined in government regulations. The Swiss Association of Actuaries consists mostly of members who have studied mathematics and/or are working in life assurance companies. There is a small but increasing number of Association members working in non-life insurance. They have no statutory role although some of these actuaries are concerned with non-life reserving.

Sweden

The responsibility for reserving lies with the management of the company although in practice all large companies have non-life actuaries and generally they have responsibility for making reserve recommendations. Usually, auditors are happy to have an actuarial report on the reserves and especially on the claims reserves. No certification is required by an actuary.

There are approximately 50 active non-life actuaries in Sweden who get involved in most aspects of the business from pricing through to reserving and financial modelling. They are present both in the technical areas and also senior management.

There has been some pressure recently through government committees to change taxation rules. The committees have considered the untaxed reserves and in particular the safety reserves. We understand actuaries have been heavily involved in the committees, largely on behalf of their employing companies.

Norway

We understand that Norwegian practice follows very much that in Sweden. In recent times consideration of solvency margin rules more in line with the European Community has taken place. Actuaries have been involved in the discussions.

Finland

The role of actuaries in non-life insurance is well developed in Finland. We understand that to be an actuary requires the passing of professional examinations after having normally completed a university degree. The system has been described as akin to the UK approach. Actuaries are found in all roles within non-life companies and play a significant role in establishing solvency regulation.

NORTH AMERICA

USA

There are 2 Associations: The Casualty Actuarial Society (non-life) and The Society of Actuaries (life and pensions) and the co-ordinating group called the American Academy of Actuaries. The separate association of non-life actuaries has been in existence since 1914 and actuaries are fully recognised within legislation and regulation.

The law relating to the operation of insurance companies varies by state and specifies differing levels of reporting in respect of certificates of reserve adequacy and also rate filings. The NAIC, the association of supervisors, operates as a coordinating body and is heavily influenced by the actuarial profession and by the views expressed by its working parties.

Certification of reserves is usually required by a "loss reserving specialist". This term, we understand, was introduced to allow grandfathering provisions. Essentially, it should mean an actuary carrying sufficient training and experience, ie. a Fellow of the Casualty Actuarial Society with relevant experience or an Associate of the Casualty Actuarial Society carrying longer experience. Where a non-actuary was involved in the reserving process prior to the introduction of the regulations he or she was allowed to continue but if the 'loss reserving specialist' changed then an actuary would need to be substituted.

We understand there are only around 1500 active practising Fellows of the Casualty Actuarial Society and this is the main reason for allowing Associates with sufficient experience to certify reserves, ie. to cope with the demand.

Within the US, strong control of rating increases by the insurance commissioners is judged by some to be more significant for solvency than the certification of reserves. This has been reinforced by the increase in "consumerism". Actuaries traditionally have had a very full involvement in preparing such rate filings. The rate filings are governed by legislation and regulation which does not allow them to be excessive. To some extent, therefore, the supervisor is left with the balancing act between requiring a fully adequate solvency position and not allowing significant profits. At times these motivations can lead to decisions possibly to the detriment of the company.

An interesting example of the difficulties facing supervisors in the US is Proposition 103 in California. This was backed by a referendum. Amongst other things, it retrospectively reduced motor rates by 20%!

It should be noted that insolvencies are a feature of the US market.

Canada

Companies in Canada may be incorporated in one of the provinces or federally and this choice determines which jurisdiction regulates their affairs. The recent impetus for change in Canada arose from three insolvencies in 1985, the first cases in many years. While none of the insolvencies affected companies incorporated in Quebec, this province's regulators are more active and have more independence and they initiated reserve certification requirements. The opinion required in Quebec allows consideration of future investment income. Shortly thereafter, the federal government and other provinces introduced their own certification requirements. The federal insurance supervisor requires adequate reserves on an undiscounted basis, but the Revenue Canada now insists on discounted reserves.

Both regulatory regimes allow the certification by approved non-actuaries during a 5 year transition period.

In response to these developments the Canadian Institute of Actuaries began a process to prepare for certification. It worked in three areas as follows:

1. Draft recommendations for property casualty financial reporting were developed. Final approval awaits completion at point 3.
2. A study of available and projected manpower was carried out.
3. Various technical issues were addressed, particularly the concept of provisions for adverse deviations. This was partly sparked by concern that best estimate reserves, which had been subject to discounting, would not carry the inherent cushioning from future investment income held in reserves representing ultimate values.

The most recent development is largely the result of non-life actuaries piggy-backing on the attempt by their life colleagues to expand the valuation actuary role to an appointed actuary role in the UK sense. The suggestion has been made to the federal government that non-life actuaries should also have a role in monitoring the financial well-being of non-life companies. The role would be defined by regulation so that it could be extended from the reserves to matching, etc as the skills and manpower available to the profession expanded.

OTHER

Australia

The Institute of Actuaries of Australia was formed out of those formerly qualified under the Institute of Actuaries examination. The training follows very much along the lines of UK actuaries with significant activity in the non-life area.

Certification of reserves is required for workers compensation as this is deemed to be long term. Reserves for this line of business are typically discounted.

Singapore

The reported reserves have generally been based on only case estimates with no refinement. However, regulatory personnel in response to a more competitive and uncertain market are now inspecting companies' books and would recommend changes to reserves they deemed inadequate. In addition, information is now being collected in more detail including breakdown of reserves by accident year. No actuarial involvement is required but it is believed that the competitive pressures may lead to a greater use of actuarial expertise in the future.

Summary

It is clear that in virtually all countries actuarial reporting, whilst generally not in the public domain, is regarded as of significant value both internally by companies and also by supervisory authorities.

Few countries require certification of reserves with the notable exception of US, Canada, Italy and, for certain types of business, the Netherlands and Australia. However, this may be linked to a large extent to the lack of existence of an identified, strong, professional body providing professional guidance and support to its members. In many European countries, for instance, the title of 'actuary' means little more than a person working in insurance carrying a mathematical background. To some extent the term 'actuarial reporting' or 'actuarial methods' seem to be more well defined than the term 'actuary' itself. The existence of a strong credible profession which is identifiable within the UK should therefore be regarded as fulfilment of a prime requirement before the introduction of some form of actuarial reporting in the public domain.

It should also be noted that the role of actuaries by whatever definition seems to be increasing in non-life insurance throughout the world.

Section 7

SUB-GROUP REPORT: PROFESSIONAL ISSUES

In this section we aim to consider some of the issues the UK actuarial profession would want to address before actuarial reporting in the public domain were possible.

In the previous two sections we have examined the development of the role of actuaries in general insurance. We have also examined the nature of the actuarial profession in other countries in the world.

It is clear that where a strong actuarial profession exists providing sufficient professional support for its members, and carrying a good reputation in the eyes of industry and of the supervisory authorities, then development towards the full role of the statutory non-life appointed actuary becomes appropriate. If the reporting were restricted solely to reserves and excluded the wider issues of the financial soundness of the company, then a statement of opinion by a 'loss reserving expert' may serve. However, in the opinion of the Working Party, actuaries in the UK are, as a profession, uniquely qualified in this area. They are also ideally suited to reporting on the wider financial soundness issues. This theme is further developed in the next section where we explore who may benefit from such an opinion letter, how it may appear, and provide considerable background with a view to activating a debate within the Convention.

In the rest of this section we explore some issues, possibly raising more questions than providing answers, in order to stimulate internal debate. We look at a number of issues.

Training and Experience

The quality of the training and experience of an individual underpin the worth of any public reporting.

The number of actuaries involved in non-life insurance is small relative to the number of companies. The Working Party felt there was a need to encourage students to train for general insurance. Nevertheless, this is a slow method of increasing the number of actuaries and is driven by market pressure. Typically most actuaries working within the non-life area started their training either in life or pension work.

The Working Party felt that development of the status and number of non-life actuaries more towards that of actuaries within life assurance and the numbers of actuaries that are in life assurance was possible. At present, few companies have more than one general insurance actuary and this can place the individual actuaries under considerable strain. This is not always well understood by companies and to this end the Working Party encourages the Institute to educate insurance companies, possibly by one day seminars.

Overall, the experience of actuaries is developing within the general insurance industry and the Working Party felt that the current level of experience and training placed the actuarial profession in non-life insurance significantly ahead of some of the other professionals. There was still considerable room for improvement. With a few notable exceptions the majority of actuaries active in non-life insurance carry little hands-on experience of running a general insurance company. Some actuarial consultants have worked for insurance companies; others have to obtain a grasp of the "day to day" rigours via their consulting practice. To some extent there is an analogy here with the supervisory agents. All these

issues place a responsibility on the employing organisations to support strongly professional standards of integrity and training so as to minimise the strain on individual actuaries.

Professional Codes and Guidance Notes

For a letter of opinion on the adequacy of reserves to be worth anything in the public domain, proper and full investigations must be carried out. In practice, legislation and regulation place the responsibility with a particular individual or group of individuals. It is highly desirable, if not vital, that the individual reporting has statutory backing so that he or she is supported in the investigations required. There is also a need for professional codes of conduct, guidance notes, and a support system over and above any 'rough' rule embodied in legislation or regulation.

The guidance notes should be comprehensive but should fall short of telling the individual what and how investigations should be carried out. They can draw attention to certain issues which commonly arise but in an area as complex and varied as general insurance the Working Party felt that greater reliance should be placed upon the experience of the actuary in determining what issues are most appropriate. In this context it is worth bearing in mind that actuarial science particularly in the area of general insurance is rapidly developing and current methodologies, for instance, would probably not have been recognised 20 years ago.

The Number of Actuaries

In order to carry out the job of public reporting on a large number of companies, a large number of actuaries is required. These actuaries must carry sufficient training and experience and have sufficient time to do the job.

The number of non-life companies is deceptively large since many of them are of a highly specialised nature. In general, the Working Party felt that were reporting to be introduced in a reasonable timeframe, say 2-5 years, then sufficient training and experience could be gained to make up for any shortfall. In any case the profession in non-life insurance is developing fast. Nevertheless, this is an area needing further research and debate.

Insolvencies or Near Insolvencies

Fortunately, insolvencies or near insolvencies have been a rare event in the UK in both life and non-life insurance. One implication of this is that there is very little experience on how to deal with these events. This was pointed out in the recent paper by Sir Edward Johnston on the Appointed Actuary in respect of life actuaries. Where a company has moved towards a position of significant risk of insolvency many factors which crystalise are often outside the experience of the appointed actuary. Sir Edward Johnston recommends to the in-house actuary that he consider external professional advice at this time.

Ironically perhaps the greatest impetus towards public reporting on reserve adequacy would be an insolvency of a major insurer.

In the next section we look at the possible form of statement of opinion that might be published and the issues surrounding it. We also consider the relative benefits to the various parties involved.

Section 8

SUB-GROUP REPORT: STATEMENTS OF OPINION

8.1 Who will Benefit?

i) Supervisor

An annual statement of opinion provides support to the supervisor in identifying when action might have to be taken in respect of a particular company or when closer attention might have to be paid to a particular company. Such a system of reporting shares responsibility and gives comfort to the supervisor in helping to identify those cases where no action or closer attention appears to be needed.

ii) The Company

It must be of benefit to the company in the prudent management of its financial affairs to have confirmation of the adequacy or reasonableness of the technical reserves by someone who is an expert in this task and who has sought to obtain some understanding of the circumstances and financial operations of the company.

iii) Policyholders

A system of statements of opinion acts in the interest of policyholders. Policyholder protection is improved if the technical reserves of every insurance company are subject to scrutiny and annual reporting by an expert who

has a detailed knowledge of the particular circumstances of the company. That is, there is a reduced risk of failure of an insurance company to meet in full its contractual obligations to its policyholders.

iv) The Company's Auditor

A statement of opinion on the technical reserves is likely to be welcomed by auditors. Such a statement of opinion will reflect a complementary form of expertise to that underlying the main work of the auditor, and at the same time the statement of opinion will lend support to the auditor in preparing the auditor's certificate.

v) The Insurance Industry: Reducing the Burden

At the present time each insurance company has the largely non-productive task of compiling voluminous annual returns. These returns were not designed to be of particular practical assistance to the company in its financial management although they may have had this effect in certain cases. The returns are also largely ineffective as the basis of supervision, partly on account of various exemptions which are available and the fact that information tends to be out-of-date by the time it becomes available. Fundamentally, though, returns cannot be expected to be an adequate basis for judging the financial circumstances of a company. Without an understanding of the company's operations and business written no-one can expect to be well placed to judge whether, for example, the previous pattern of run-off of claims is no longer applicable.

A system of an annual statement of opinion would enable a considerable reduction to be made in the volume of information contained in the returns. In this way the burden on the insurance industry in producing these figures would be significantly reduced.

vi) Government/Parliament

The system of publishing an annual statement of opinion will be effective only if it is operated by all general insurance companies. This points to the need for legislation. Given the potential benefits to the various parties as set out above, it can be argued that Government has a duty to introduce legislation to require for each insurance company an annual statement of opinion relating to general insurance technical reserves. Only in this way will Government be taking all reasonable steps to protect policyholders, while at the same time enabling a reduction in the burden on the industry from the extensive form-filling needed for the current returns.

8.2 Who Should be Empowered to Provide a Statement of Opinion?

It is natural to look to the actuarial profession for suitable "experts" in claims reserving. Actuaries, by their qualities and training, and by the increasing experience of the profession in general insurance in the UK are well suited to the work of providing a statement of opinion relating to general insurance technical reserves. There is also the desirable factor of

actuaries belonging to a profession, and thereby being subject to professional guidance and professional discipline.

If the statements of opinion were to be provided by Fellows of the Institute of Actuaries and Fellows of the Faculty of Actuaries only, it would be sufficient to draft the legislation so as to allow any FIA or FFA to undertake these responsibilities, without imposing restrictions on which actuaries may act. The professional code of conduct specifically prohibits a member from undertaking work for which he or she does not have sufficient experience.

However, the legislation needs to take account of other categories of people with expertise in this area:

- a) some members of other EC actuarial bodies
- b) some members of non-EC actuarial bodies, and
- c) a small number of individuals not belonging to any actuarial body.

It may be important to avoid any discrimination in the legislation between FIA/FFA's and other EC actuaries. It may be preferable, therefore, not to state that any FIA or FFA would be allowed automatically, and any persons in categories a), b) and c) would be authorised individually.

Instead, it may be best to allow simply for any individual (including FIA/FFA) to be empowered to take on the responsibilities, provided the Secretary of State is satisfied that the person has the necessary level of competence and experience. This general form of wording would not be expected to be any barrier to the appointment of an FIA or FFA.

Irrespective of whether the person appointed is an FIA or not, it may be suitable to include in the legislation or regulations the requirement that the statement of opinion, together with the unpublished papers, should, where appropriate, be in accordance with any guidance notes on general insurance which the Institute of Actuaries may have issued and which are still operative. The topic of guidance notes is considered later in these notes.

Companies should be free to use either an employee of the company or a consultant to provide the statement of opinion, subject to the person being approved by the Secretary of State.

In the remainder of these notes, reference to "actuary" should be taken to include those in category c) above, ie. persons with relevant experience appointed to undertake the work, but not being a member of any actuarial body.

8.3 How Much Detail Should be Published?

We should not be aiming here for equivalence with life assurance. The life actuary's report is accompanied by tables which provide a valuation summary in a standard format, and the figures can at least in theory be checked for reasonableness by an independent actuary. In general insurance the situation is far more complicated than in life assurance, and the range of different circumstances from company to company is vast. This seems to rule out the use of tables in prescribed format. The complexity of the business militates against the setting out of the actuary's detailed calculations, which are liable to vary tremendously according to such factors as type and volume of business, availability of primary and

secondary data, and the extent to which the effect of past and current trends in the business can be quantified. It could also be entirely inappropriate for even any summary results to be published, especially if they show different figures from those printed in the main body of the returns.

The reasoning set out above points to the publication of an abbreviated report only, which might be known as a "Statement of Opinion". This abbreviated report would probably be similar in coverage and length to the statement by a loss reserving specialist which is currently being introduced by NAIIO in the United States (This applies to UK actuaries providing "certificates of loss reserves" as part of the returns to the NAIIO). The NAIIO statement contains the following paragraphs:

- i) a paragraph identifying the specialist
- ii) a scope paragraph identifying the subjects on which an opinion is to be expressed and describing the scope of the specialist's work; and
- iii) an opinion paragraph expressing his or her opinion with respect to such subjects.

One or more additional paragraphs may be needed in individual cases if the specialist considers it necessary to state a qualification of his or her opinion or to explain some aspect of the financial statements which is not already sufficiently explained.

Further details of the NAIIO statement are annexed as Exhibit 4. It is understood that it is to be mandatory for a company writing any business in the USA to obtain such a statement.

The framework of the NAIIO statement would appear to be suitable for the UK, although later in this report we shall need to consider carefully the detailed composition and wording of the various sections of the published statement. In particular note that the published Statement of Opinion, incorporating no numerical results, would not be designed to enable an independent check to be made.

The members of the Institute of Actuaries working party on Actuarial Reporting are of the view that in addition to preparing a Statement of Opinion which will be published, probably in the DTI returns, the actuary must compile a set of working papers which would be available to the supervisor on request, for example if the company's position appeared to give some cause for concern. These working papers would include a full description of methods and assumptions used, the main working sheets and the numerical results obtained to assess the reasonableness (or to derive) the amounts provided. The working papers would probably also include some numerical indication of possible/likely variation in the claims experience. In general terms the unpublished papers should aim to give sufficient detail of data/investigations/results to support all the statements and comments made in the published Statement of Opinion.

8.4 Would the Institute's Guidance Notes be Applicable?

If a regime of statutory reporting on non-life technical reserves is introduced, the Institute will no doubt wish to review its Guidance Notes on general insurance. For the time being let us take the current Guidance Notes and consider their applicability in the proposed regime of statutory reporting.

The proposed Statement of Opinion is too abbreviated to be regarded as a complete actuarial report for the purpose of the current Guidance Notes. However, it is reasonable to regard the Statement of Opinion combined with the unpublished working papers as comprising an actuarial report to which the Guidance Notes are fully applicable.

The Guidance Notes include guidance on various matters which the actuary should "consider" or to which he or she should "have regard". Before considering in the next section some possible forms of wording of the Statement of Opinion, we need to note that the Guidance Notes include some advice on what should be specifically contained or referred to within an actuarial report. This advice is summarised in Exhibit 7. In brief, the elements which should be included fall within the following main headings:

- Preliminaries
- Guiding accounting principles
- Data
- Assumptions/basis
- Sensitivity to variation
- Discounting/nature of assets
- Reinsurance
- Cross-funding

For some of the above topics the requirements of the current Guidance Notes as regards what should be included in an actuarial report are fully or largely met in the wording of the proposed Statement of Opinion which we shall consider below, whereas for other topics the Statement of Opinion is likely to include little or nothing of what is specifically required by the Guidance Notes to be stated in an actuarial report. This needs to be borne in mind in considering the content of the unpublished papers.

8.5 Content of the Statement of Opinion

i) As in the case of the NAIIO statement, the opening paragraph of the Statement of Opinion would set out some preliminary information. This information might include:

- a) The name of the person preparing the Statement of Opinion.
- b) The actuarial qualifications of the above person, or an indication that the person is not an actuary but is nonetheless authorised by the Secretary of State to undertake the work of providing Statements of Opinion on General Insurance Technical Reserves.
- c) Whether or not the person is an employee of the company or a consultant, and in the latter case the name of consultancy firm.
- d) Confirmation that the person had been commissioned by the company to undertake the work and produce this Statement of Opinion.

Unlike the suggested wording of the NAIIO statement, it is suggested that it should not be necessary for the person carrying out the work to be required to state "I have competency in loss (claims) reserving". Also, the words "expert" and "specialist" are best avoided.

ii) The next section of the Statement of Opinion would correspond broadly to the "scope paragraph" of the NAIIO statement. This section would include the following elements:

- a) Confirmation that this Statement of Opinion relates to all the company's general insurance technical reserves as set out in line 29 of Form 15 of the DTI returns for the latest year; or a statement of which technical reserves have been assessed and which have not.
- b) A reference to the adequacy of the company's basic records and of the summary used in carrying out the work.

The NAIIO system of certification permits the loss reserving specialist to pass responsibility for the records and/or summaries either to employees of the company or to a firm (presumably the company's auditors). (See paragraphs 6 and 7 of Exhibit 4). It is clearly inappropriate for an actuary to take responsibility for something of which he or she has no knowledge. On the other hand it seems less than satisfactory for the actuary to disclaim all responsibility for the reasonableness of the data which he or she has used in producing the Opinion. Even when the actuary has had no control over the preparation of the data, it would be expected that he or she would examine the data critically and seek explanations regarding any unusual features. On these grounds, the permitted total disclaimer in the NAIIO statement regarding records and/or summaries would not be a desirable feature of the proposed Statement of Opinion. If necessary, some form of partial disclaimer might be included, although in such circumstances the actuary might be expected specifically to confirm, without accepting the

responsibility for the accuracy or completeness of the data, that he or she had given some consideration to the reasonableness of the data which had been supplied, had made enquiries regarding specific features of the data where necessary and, following these steps, was prepared to regard the data as satisfactory.

In the case where no (partial) disclaimer is included, the wording might be along the following lines.

"My investigations included reviewing the nature of the available summary data and taking steps to verify the material accuracy of these data. Following these investigations, in my opinion the data provided are adequate for the purpose of the valuation of the general insurance technical reserves".

It might be argued that the first sentence of this statement is unnecessary since the Institute's Guidance Note specifically requires any actuarial report to comment on the nature and accuracy of the data. However, on such a vital matter, it would seem appropriate for a specific reference to be made in the Statement of Opinion. The second sentence of the above statement is the general insurance equivalent of the first paragraph of the life actuary's certificate which is published in the DTI returns. The second sentence of the above statement would need to be modified or qualified if the investigations had revealed significant problems in regard to the nature of the data or their accuracy or reasonableness.

The NAIIO form of statement includes: "My examination included such review of the assumptions and methods used and such tests and calculations as I considered necessary".

A sentence on the above lines would appear to be unsuitable for inclusion in the Statement of Opinion since:

- 1) The actuary's Opinion should relate to the amounts of the technical reserves adopted by the company rather than the methods used to arrive at these amounts. The actuary may prefer to pay little regard to the company's method of deriving, say, the provision for reported outstanding claims, and to use his or her own choice of method(s) to verify the reasonableness of the provision.
- 2) If the actuary had not carried out tests and calculations he or she would be in no position to form an Opinion.
- 3) "..... as I considered necessary" is an unnecessary phrase.

Given that the above sentence is unsuitable for inclusion in the Statement of Opinion, we conclude that the Statement of Opinion should make no reference to methods and assumptions (whether the company's or the actuary's). Clearly the actuary would not use methods and make assumptions which he or she considered to be inappropriate. The methods and assumptions will, of course, need to be fully set out in the unpublished working papers.

- iii) The next section of the Statement of Opinion contains the actuary's opinion.

The wording of this section requires particularly careful consideration. Let us consider some of the possibilities, ignoring for now the circumstances of an adverse opinion.

The opinion paragraph in the NAIIO statement would comprise as a minimum:

"In my opinion, the amounts carried in the balance sheet on account of the items identified above:

- i) are computed in accordance with accepted loss reserving standards and are fairly stated in accordance with sound loss reserving principles.
- ii) are based on factors relevant to policy provisions.
- iii) meet the requirements of the insurance laws of (country of domicile).
- iv) make a good and sufficient provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements."

The above would need to be supplemented in certain circumstances, eg.

"A material change in assumptions (and/or methods) was made during the past year, but such change accords with accepted loss reserving standards." A brief description of the change would follow.

Various features of the above NAIIO wording would be unsuitable for UK use. For example, "accepted loss (claim) reserving standards" and "sound (as opposed to unsound?) loss (claim) reserving principles" are not generally accepted expressions in the UK and are unlikely to become so.

The phrase "good and sufficient provision" causes some problem and 'reasonable provision' is possibly more acceptable in the UK, subject to guidance notes regarding this form of words.

Note that the NAIIO statement generally relates only to claims provisions (and provision for claims expenses) and not to provisions for unexpired risks (including UPR).

In thinking of possible wording for the opinion paragraph to which the non-life actuary might put his or her name, let us look at the wording to which the life actuary in the UK currently puts his or her name. The life actuary says that:

- a) i) in his/her opinion, proper records have been kept
- ii) the reserves in Form 14 ... constitute proper provision ...
- iii) the liabilities in ii) have been assessed ... in the context of assets valued in accordance with the Regs.
- b) the required minimum margin is fx.

This statement appears fairly bland in respect of life assurance. The key phrase is "constitute proper provision", supported by "in the context of assets valued in accordance with ...".

Let us take this phrase "constitute proper provision", or the phrase "make a reasonable provision" which was encountered above, as a starting point in deciding on suitable wording for the non-life actuary to use. Either of these phrases would need to be defined, and this might be done by reference to such phrases as:

- i) likely to prove adequate (claims provisions) or likely to prove sufficient (premium provisions/funds); and
- ii) falls within the acceptable range, due regard having been given to the uncertainty inherent in the claim costs (claim provisions).

If we avoid using the phrases "constitute proper provision" and "make a reasonable provision", and instead are more specific as to what we might mean by this, the result might be an opinion paragraph as illustrated in Exhibit 5. In this illustration,

- claims provisions (para a)
- premium provisions (para b) and
- funds (para c)

are treated separately.

If we prefer not to treat the various provisions separately, we might instead refer in the opinion paragraph to the total of the general business technical reserves as shown on line 29 of Form 15 of the DTI returns, although possibly excluding from consideration the amount of the claims equalisation reserve on line 27. The main part of the opinion paragraph might then comprise, assuming no caveats are required:

"In my opinion the amount shown in line 29 of Form 15 makes a reasonable provision as at the end of the financial year for those liabilities listed on lines 21 to 28 of Form 15."

An alternative wording might be:

"In my opinion the amount shown in line 29 of Form 15 constitutes proper provision as at the end of the financial year for those liabilities listed on lines 21 to 28 of Form 15."

It is suggested for consideration that this statement would be followed by a statement, such as paragraph d) of Exhibit 5, making reference to the assets, eg.

"This assessment of the technical reserves has been made having regard to the nature and term of the assets, which have been valued in accordance with Part V of the Insurance Companies Regulations 1981, as shown in Form 13."

The phrase "having regard to the nature and term of" is more specific than the phrase "in the context of" in the life actuary's statement.

A reference as above to the underlying assets would be particularly relevant if any of the provisions (possibly including an additional provision for unexpired risks) had been assessed on a discounted basis. However, even if none of the provisions are on a discounted basis, it might be thought appropriate to expect the actuary to make a statement referring to the underlying assets.

If, in the case of 3 year accounting, it were necessary to make an inward transfer to support one or more of the funds, it would be appropriate for the actuary to make specific reference in his or her Statement of Opinion and in general for the amount of the transfer to be subject to approval, or non-disapproval, by the actuary.

A possible wording for a complete Statement of Opinion, assuming no adverse circumstances, is shown in Exhibit 6.

8.6 The Circumstances of an Adverse or Qualified Opinion

The NAIIO note states:

"If the specialist is unable to form an opinion, he or she should refuse to issue a statement of opinion. If the opinion is adverse or qualified, the specialist should issue an adverse or qualified opinion explicitly stating the reason(s) for such opinion."

The above advice is equally applicable to the proposed UK Statement of Opinion. One situation liable to arise is where the reserves are considered by the actuary to be either excessive or inadequate. If the actuary remains of this view, he or she must make this view clear in the Statement of Opinion. Additional guidance notes from the Institute are likely to be needed to consider alternative forms of wording and to discuss in some detail the circumstances in which they might be used.

8.7 Overall Soundness and On-going Solvency

The suggested form of wording to be signed by the actuary does not make any specific reference to overall

soundness, except that the suggested words would imply that the true margin of solvency as at 31 December was (likely to be) not less than that shown on line 11 of Form 9.

Nor does the suggested form of wording consider the on-going position of the company after 31 December as regards, say, changes in the solvency margin and an assessment of the profitability of business written after 31 December. The wording does, however, consider the adequacy of provisions in respect of unexpired risks at 31 December. Reporting specifically on the on-going financial position is the natural progression.

While the suggested wording would in itself impose no duty on the actuary to report publicly as a matter of course on ongoing solvency, the actuary should be in a good position to become aware of adverse developments after 31 December. To this end it may be reasonable for the legislation or regulations to require the company to make available its board papers or decisions to the actuary.

Exhibit 1

C D A Mackie Esq
Secretary-General
The Institute of Actuaries
Staple Inn Hall
High Holborn
LONDON W1V 7QJ

Department of
Trade and Industry

10-18 Victoria Street
London SW1H 0NN

Switchboard
01-215 7877

Telex 8811074 DTHQ G
Fax 01-222 9280

Direct line 01-215 3144
Our ref
Your ref
Date 20 July 1988

Dear Mr. Mackie,

**REVIEW OF ASPECTS OF THE REGULATION OF NON-LIFE INSURANCE
COMPANIES**

I hope that by now you will have heard or read of the study commissioned by the Parliamentary Under Secretary of State for Corporate Affairs, the Hon Francis Maude MP, into aspects of the regulation of non-life insurance companies.

I am writing to you to invite your observations as a professional body on the issues that should be addressed in any attempt to amend Regulatory practices, and the principles that you believe should be reflected in any proposals that may ultimately be made. While I should be pleased to receive your written views, I believe that a discussion of them is likely to be particularly useful and would therefore welcome an opportunity of meeting you. If you would like to discuss how such input as you wish to make can best be dealt with, please contact me at the above address and/or telephone number.

As regards the nature of my review, a copy of the Minister's announcement is attached to this letter for your information. But, as it was necessarily brief, I think it is appropriate for me to explain more fully the main lines of enquiry.

In general the study will concentrate on analysing the level, extent and nature of the financial data required of companies, with a view to making this aspect of the Regulation process more effective whilst, if possible, less costly. I do not propose to

contd

2

address other aspects of Regulation, such as access to the market or the "fit and proper" provisions, at least at present.

While in no way wishing to limit your views to the following issues they seem to us to offer opportunities for constructive discussion:-

- a) Given the increased disclosure to shareholders expected to result from the draft Directive on Insurance Company Accounts and the ABI SORP, do opportunities exist for a rationalisation of the present returns and accounts and a reduction in the data submitted? If so, where and what?
- b) Should there be less historic data and more data on the exposures and risks that a company, or type of company, is thought to be facing?
- c) Is it appropriate for all insurance companies to provide the same data whatever their business patterns and solvency margins?
- d) How relevant is data at a line of business level when solvency or insolvency is corporate in nature?
- e) Should companies be given more freedom as to the format of data submitted to the Regulator?
- f) Could discussions in certain ways replace data? But would and should such an approach conflict with a fundamental tenet of UK Regulation, "freedom with publicity"?
- g) Is there scope to reconsider the reliance that is or could be placed on the independent auditor by the Regulator? Should non-life companies be required to have an actuary or someone with other relevant qualifications to certify claims reserves?
- h) Do the needs (for detailed data) of certain users of other companies' returns conflict with the burden on a company's accounts staff of producing its own? If so, can these interests be balanced?
- i) Should the time allowed for submission of returns be reduced and/or the frequency of reporting increased?
- j) Would changing the Regulatory system in fact be likely to cost more than it would save?

With the main aim of Regulation, the protection of policyholders, unchanged, we see no realistic opportunity for the complete discontinuation of a Regulatory regime based on the submission of shareholders' accounts and annual returns, and on the monitoring of solvency against a Required Minimum Margin. This last element is an established basis within the EEC to which the UK, as a

contd

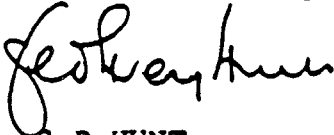
3

Member State, must continue to adhere, and the submission of financial data to Regulators is the approach generally adopted elsewhere. However, we are interested in exploring the opportunities for shifting the emphasis of our present practise, so as to make it both more effective and less costly.

As for timing, I should of course like to progress the Review as quickly as possible. I would therefore hope to be in a position to discuss your views with you or consider your reply during the next two or three months, so that we could formulate some firmer proposals by the end of the summer. We would, however, anticipate that later discussions of those could be protracted, so making an eventual completion date difficult to forecast, at least at the present time.

I should now simply like to thank you in advance for your participation in this study, and look forward to hearing from you in due course.

Yours sincerely,



G R HUNT
Room 703
Insurance Division

23 JUNE 1988

Written Answers

Insurance Companies Act

Mr. Roger King: To ask the Chancellor of the Duchy of Lancaster whether he will take steps to reduce the cost of compliance with his Department's regulations under the Insurance Companies Act.

Mr. Maude: I am setting up a review of the regulation of non-life insurance business, excluding Lloyd's, with a view to improving the cost effectiveness of regulation and improving the presentation of the related returns required by insurance companies legislation. Lessons from this review will be taken into account in considering the returns required for life insurance business. The review will be carried out by Mr. Geoffrey Hunt, who has been seconded to the DTI from a senior position in the insurance industry.

Exhibit 2Actuarial Reporting in General Insurance
Working Party Members

<u>Name</u>	<u>Address</u>
RON AKHURST	R Watson & Sons
MARTYN BENNETT	Co-operative Ins Society Ltd
PETER COPEMAN	Orion Insurance plc
DAVID CRAIGHEAD	Consultant
COLIN CZAPIEWSKI	Terra Nova Ins Co Ltd
DAVID FINNIS	Prudential Assurance Co
PAUL JARDINE	Coopers & Lybrand
JANEK KAMIENIECKI	Bacon & Woodrow
KENNETH LARNER Chairman	Tillinghast
GRAHAM MASTERS	London & Edinburgh Group
GEORGE ORROS	Tillinghast
DAVID SANDERS	Eagle Star
CHRIS TOWNSEND	Commercial Union Insurance
MARTIN G WHITE	Lloyd's

Exhibit 3ITALY: Example Layout of Actuarial Statement
Attached to the Balance Sheet Certification

By your pleasant assignment, I examined the balance sheet items concerning premium and claims reserves through actuarial revision methods, with the purpose of assessing their correspondence to the following principles (if applicable):

- a) use of developing assumptions, statistically reasonable
- b) use of prudent expense assumptions and industrial and financial projections
- c) adoption of adequate criteria of cost allocation
- d) correct evaluation of industrial results
- e) application of correct techniques.

As due, I gave a statement of the results of my work, drawn up according to the execution layout arranged by ORDINE NAZIONALE DEGLI ATTUARI*, following the technical and deontological professional rules.

As arising from the detailed contents of my analytical statement, it is my opinion that the correspondence to the above principles exists.

* Italian actuarial body

Exhibit 4CERTIFICATION OF LOSS RESERVES

1. There is to be submitted to the NAIIO as an addendum to its standard NAIIO reporting format, a statement of a qualified loss reserve specialist setting forth his or her opinion relating to loss and loss adjustment expense reserves. "Qualified loss reserve specialist", as used herein means an actuary or a person who has competency in loss reserve evaluation.
2. Such a statement of opinion must consist of a paragraph identifying the specialist; a scope paragraph identifying the subjects on which an opinion is to be expressed and describing the scope of the specialist's work (see sections 5-7 below); and an opinion paragraph expressing his or her opinion with respect to such subjects (see sections 8-10 below). One or more additional paragraphs may be needed in individual cases if the specialist considers it necessary to state a qualification of his or her opinion or to explain some aspect of the financial statements which is not already sufficiently explained in the financial statements.
3. The opening paragraph should generally indicate the specialist's relationship to the company. For an independent actuary, the opening paragraph of the opinion should contain the sentence:

"I, (name and title of consultant), am associated with the firm of (name of firm). I have been retained by the (name of insurer) with regard to loss and loss adjustment reserves."

For a person other than an actuary, the opening paragraph of the opinion should contain the sentence:

"I, (name and title), am an officer (employee) of (name of insurer), and I have competency in loss reserving."

or:

"I, (name and title of consultant), am associated with the firm of (name of firm). I have competency in loss reserving and have been retained by (the name of insurer) with regard to loss and loss adjustment expense reserves."

4. The following are examples, for illustrative purposes, of language which in typical circumstances would be included in the remainder of the statement of opinion. The illustrative language should be modified as needed to meet the circumstances of a particular case, and the specialist should in any case use language which clearly expresses his or her professional judgement.
5. The scope paragraph should contain a sentence such as the following:

"I have examined the assumptions and methods used in determining reserves listed below, as shown in the Financial Statement of the company as prepared for filing with regulatory officials, as of 31 December 19..."

The paragraph should list those items and amounts with respect to which the specialist is expressing an opinion. The list should include but not necessarily be limited to:

- i) Reserve for unpaid losses.
- ii) Reserve for unpaid loss adjustment expenses.

6. If the specialist has examined the underlying records and/or summaries, the scope paragraph should also include a sentence such as the following:

"My examination included such review of the assumptions and methods used and of the underlying basic records and/or summaries and such tests and calculations as I considered necessary."

7. If the specialist has not examined the underlying records and/or summaries, but has relied upon those prepared by the company, the scope paragraph should include a sentence such as one of the following:

i) "I relied upon underlying records and/or summaries prepared by the responsible officers or employees of the company or group to which it belongs. In other respects, my examination included such review of the assumptions and methods used and such tests of the calculations as I considered necessary."

ii) "I relied upon (name of firm) for the accuracy of the underlying records and/or summaries. In other respects, my examination included such review of the underlying assumptions and methods used and such tests of the calculations as I considered necessary."

8. The opinion paragraph should include a sentence which covers at least the points listed in the following illustration:

"In my opinion, the amounts carried in the balance sheet on account of the items identified above

- i) are computed in accordance with accepted loss reserving standards and are fairly stated in accordance with sound loss reserving principles.
- ii) are based on factors relevant to policy provisions.
- iii) meet the requirements of the insurance laws of (country of domicile).
- iv) make a good and sufficient provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements."

9. If there has been any material change in the assumptions and/or methods from those previously employed, that change should be described in the statement of opinion by inserting a phrase such as:

"A material change in assumptions (and/or methods) was made during the past year, but such change accords with accepted loss reserving standards."
A brief description of the change should follow.

The adoption for new issues or coverages requiring underlying assumptions which differ from assumptions used for prior issues or coverages is not a change in assumption within the meaning of this paragraph.

10. If the specialist is unable to form an opinion, he or she should refuse to issue a statement of opinion. If the opinion is adverse or qualified, the specialist should issue an adverse or qualified opinion explicitly stating the reason(s) for such opinion.

Exhibit 5SPECIMEN OPINION PARAGRAPH

(This version refers to each main provision separately)

(See APPOINTED ACTUARY'S CERTIFICATE in DTI Returns for comparison)

- a) In my opinion, for the general business classes accounted for on a one-year basis, the provision for outstanding claims (covering reported outstanding claims, claims incurred but not reported and future claims handling expenses) at 31 December 1989, as shown in lines 23, 24 and 25 of Form 15,
 - i) is likely to prove adequate and
 - ii) falls within an acceptable range, due regard having been given to the inherent uncertainty in the claim costs.
- b) In my opinion, for the general business classes accounted for on a one-year basis, the provision for unearned premiums at 31 December 1989, shown in line 21 of Form 15, is likely to prove sufficient.
- c) In my opinion, for the general business classes accounted for on a three-year basis, the fund at 31 December 1989, shown in line 26 of Form 15, is likely to prove sufficient.
- d) For the purposes of paragraphs b), c) and d) above, the assessment of the liabilities has been made having regard to the nature and term of the assets, which have been valued in accordance with Part V of the Insurance Companies Regulations 1981, as shown in Form 13.

Exhibit 6SPECIMEN STATEMENT OF OPINION

(assuming that such statement forms part of the DTI Returns)

Statement of Opinion Relating to General Insurance
Technical Reserves

- i) I, (name), a Fellow of the Institute of Actuaries and an employee of the XYZ Insurance Company plc, have been appointed by the company, with the approval of the Secretary of State for Trade and Industry, under the terms of the Insurance Companies (Supervision of General Insurance) Act 1991, to provide an opinion relating to general insurance technical reserves.
- ii) My investigations included reviewing the nature of the available summary data and taking steps to verify the accuracy of these data. Following these investigations, in my opinion the data provided are adequate for the purpose of the valuation of the general insurance technical reserves.
- iii) In my opinion the amount shown in line 29 of Form 15, representing the totality of the company's general insurance technical reserves, makes a reasonable provision as at the end of the financial year.
- iv) This opinion regarding the technical reserves has been formed having regard to the nature and term of the assets, which have been valued in accordance with Part V of the Insurance Companies Regulations 1981, as shown in Form 13.

Exhibit 7

CONTENTS OF AN ACTUARIAL REPORT ON NON-LIFE TECHNICAL RESERVES: WHAT GN12 STATES SHOULD BE INCLUDED

The following notes summarise the professional guidance given in the existing guidance note, GN12, regarding what should be included in an actuarial report on non-life technical provisions. GN12 contains other guidance relating, for example, to matters which the actuary should "consider" or to which he should "have regard". These notes concentrate on those matters which GN12 advises should be specifically contained or referred to within the actuary's report.

Guidance in GN12 is often qualified by the words "where appropriate". Such guidance is indicated in the notes below by an asterisk (*).

The following notes relate to Sections 1 and 4 of GN12. Regarding Combined Reserves (Section 5), para 5.3 indicates that the guidance given in Section 2 (and presumably also Section 1, eg. para 1.6) and, where the context permits, in Sections 3 and 4 is equally applicable. Section 6 (Financial Strength and Soundness) is not applicable to these notes which relate solely to Technical Reserves.

Preliminaries - Ref. in GN12

- | | | |
|----------|-----|---|
| 1.6(i) | (1) | State who has commissioned the report |
| 1.6(ii) | (2) | Where different from 1.6(i), state the addressee |
| 1.6(iii) | (3) | State the terms of reference given |
| 1.6(iv) | (4) | State the extent to which the terms of reference have been met, and any departure from or extension to those terms. |
| 1.6(vi) | (5) | If GN12 has been departed from, state the reasons |
| 1.6(vii) | (6) | State the name and professional qualification of the actuary |

- 1.6(iv) (7)* Comment on the extent of reliance on other professionals.

Guiding Accounting Principles - Ref. in GN12

- 2.2 (8)* State how the report relates to any guiding accounting principles (GAPs).
- 3.9 (9) (This item is in GN12 under O/s Claim Reserves, but is of general applicability. There is an overlap with (8) above.) If an opinion on reserving levels is given, make clear
- i) the context in which the opinion is given
 - ii) whether in accordance with any GAPs
 - iii) the relationship of the opinion to any such GAPs
 - iv) the meaning of words such as 'adequate' and 'sufficient'.
- 4.4 (10) (Re UPR) By reference to any GAPs, comment on the appropriateness of any quantification of deferred acquisition costs.

Data - Ref. in GN12

- 2.6(i) (11)* Comment on the nature and accuracy of the data and the steps taken to verify the accuracy of the data.
- 2.7 (12)* Comment on the degree of grouping or subdivision of the data and, if necessary, on the limitations imposed by this grouping.

Assumptions/basis - Ref. in GN12

- 1.6(v) (13) State the key assumptions made
- 3.5(part) (14) (This item is in GN12 under O/s Claim Reserves, but is of general applicability.) State whether the assumptions made are reasonable and in line with the current state of knowledge.
- 2.11 (15)* Report on the extent to which the expected basis used in establishing the estimates compares with the actual experience. (Overlap with (14) above.)
- 2.6(iii) (16A)* Comment on the effect of changes in underwriting practices, claims handling, data processing, accounting procedures, and known or potential changes in the legal and social environment.
- 2.6(ii) (17)* Comment on the last similar report and any changes in the basis used or the key assumptions.

Sensitivity to Variation - Ref. in GN12

- 2.6(iii) (16B)* (As (16A) above, with the emphasis on the potential, rather than the known changes.)
- 3.5(part) (18)* (This item is in GN12 under O/s Claim Reserves, but is of general applicability.) After having regard to significant sources of likely variations from the assumptions and methods used, comment on the size and likelihood of the potential difference. (Overlap with (16B) above.)

- 2.5 (19)* Indicate the sensitivity of the estimates to variations from the stated assumptions. (Duplicates (18) above.) May sometimes need to indicate that the basis makes no provision for particular unforeseen contingencies (!).

Discounting/Nature of Assets - Ref. in GN12

- 3.8(part) (21) (Ref. O/s Claim Reserves) Make clear whether or not the reserves are discounted, either explicitly or implicitly and, if explicitly, the rate of discount used.
- 3.8(part) (21) (Ref. O/s Claim Reserves) If reserves are discounted explicitly, make clear the extent to which the nature of the covering assets has been taken into account).
- 4.7 (22) (Ref. Additional Amount for Unexpired Risks) Make clear the extent to which the nature of the covering assets has been taken into account. (In what circumstances is this statement applicable? Perhaps when an AA for UR would/might be required in the absence of taking credit for future investment income).

Reinsurance - Ref. in GN12

- 2.8 (23) When considering the gross position, especially when there is excess of loss reinsurance, may need a caveat on the dependence on reinsurance.
- 2.10 (24) When considering the net position, comment on the extent to which the possible non-performance (including possible exhaustion) of the reinsurance arrangements has been taken into account.

- 2.9 (25) When estimating separate gross and reinsurance recovery reserves using different principles or methods for the two elements, comment on the appropriateness of the different principles or methods.

Cross-funding - Ref. in GN12

- 2.12 (26)* Given the purpose of the report, indicate the degree to which cross-funding exists.