DTI RETURNS WORKING PARTY

Introduction

At the GISG Conference in 1988, two working parties were established in the light of G. Hunt's initiative - one to consider the possible formats/content of actuarial reports in the context of statutory supervision of general insurance companies in the UK and the other to consider the specific content of DTI returns and its relevance to the supervisory process. This brief note sets out some key thoughts on DTI returns; we regard the points made as a progress report and not definitive; we would welcome comment and discussions at Brighton. There are a number of ways that the work could be progressed - for example it could be expanded in an educational way to add to actuarial reading, or it could be merged with the other working party report to form an agreed actuarial view on the subject. In any case more detailed thought on design of specific formats is still needed.

Section 1 gives a brief review of general principles.

Section 2 summarises the changes to DTI returns that could be envisaged:

a) with an actuarial opinion on claims reserves.

b) with an actuarial opinion on overall financial stability.

Section 3 concludes with a radical suggestion that any form of regulatory return should be one part of the Companies Act accounts, and poses issues for further consideration.

Appendix A shows the current returns in outline (and gives the Working Party summary critique of each form).

Appendix B outlines some of the more philosophical areas of discussion which the working party had and could be expanded for educational purposes.

Appendix C gives some general suggestions for improving the current returns, which would be relevant to the extent that existing forms are retained.

Cont ....

Section 1 - General Principles

The report is based on the premise that the aim of the regulatory process is to keep under review the financial strength or stability of insurance companies, with particular regard to the interests of the policyholders. The authorities should achieve this at a minimum cost and with least possible interference in the affairs of companies.

By requiring some form of return, the DTI gain overview data on assets and liabilities, which together with an analysis of underwriting results help them to make a preliminary assessment of stability and to identify areas for more detailed investigation if necessary. The asset data shows the general mix of assets reflecting the valuation and admissibility regulations; the returns include a vast volume of statistical data on liabilities which ostensibly enables an impartial verification of technical reserves as part of this review of financial strength. Reinsurance arrangements are briefly covered and these play a significant role in financial soundness (by implication part of the process of verifying net technical reserves must be to review the appropriateness of a reinsurance programme and the security aspects thereof). Overall various solvency margin calculations and tests are required, together with basic accounting information. When the current DTI returns were developed they provided some standardised data which was then lacking from accounting formats.

The returns have been designed to cover all types of business written, and the wide variety of insurance covers is one of the major problems in determining a suitable format. In particular the differences between London market and direct UK business need covering - although we understand the desire for consistency of approach to each business being supervised by the DTI. This problem of variety is one of the key reasons for requiring more than just the publication of data (which of itself might give the spurious feeling of accuracy by its sheer volume) - there is a basic difficulty in capturing the qualitative nature of risks being underwritten in numeric summary form.

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An incidental use made of DTI returns is provision to third parties of relevant information about either overall market data or individual companies. It may be argued that this enhances the stability and knowledge of the whole market, and is in line with the general principle of 'freedom with publicity'. We do not regard this alone as sufficient rationale for retaining the full data requirements of the published DTI returns but we do recognise that organisations such as the ABI use the information and could lose continuity of statistics if publication ceased. In any case this could be the function of Companies Act accounts (which have become more consistent as demonstrated by the SORP) and other returns such as contributions to industry data, stock exchange requirements and more general "public relations" information.

Initially the working party considered which forms might be removed or improved without any change in regulatory regime (see suggestions in Appendix C). In the event, we did not pursue this route but considered in more depth what the changes might be with actuarial reporting of various types. A specialist with industry-wide knowledge, and access to internal records should be better placed than an outsider, such as the DTI, to pass an opinion on either financial stability or adequacy of technical reserves. Financial strength may be under threat from business currently being written, as well as from that written in prior years; a full understanding of what the underwriters are currently putting on the books is hard to asses from published data alone. Indeed with actuarial reporting, publication of data might be regarded as mis-leading.

As a final principle, the working party noted that the process of European harmonisation might force the pace of change, but that the UK would not wish to impose excessive requirements and so make the UK less attractive as a market. Thus the balancing act between the need for professional reporting and the volume of published data is an important, but delicate one. Equally the DTI would not wish to compromise the rigour of their vetting by relying entirely on formats suggested by European directives should there be any perceived weaknesses, oversights or inadequacies in these directives when applied in the UK.

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SECTION 2 - PART A

As a general introductory comment, the presentational format of DTI returns has been driven by the need to use them as computer input forms. Whilst problems of redrafting should not be underestimated, there might be scope to permit freedom of presentation for public consumption.

CHANGES WITH AN OPINION ON THE ADEQUACY OF TECHNICAL RESERVES

This section examines the possibilities for dispensing with certain forms currently required by the DTI on the assumption that an actuarial opinion is provided on the adequacy of claims reserves.

Forms 9, 10, 11 and 12

These forms constitute the Statement of Solvency and calculation of the required solvency margin in compliance with EC requirements. If actuarial opinions are formed on the adequacy of claims reserves only, rather than a wider opinion on the financial standing of an insurer, it is logical to retain these forms, although form 10 could be merged with form 9.

Forms 13, 15 and 16

This series equates to the balance sheet and profit and loss account in Companies Act accounts. As such they are fundamental to gaining an understanding of the overall financial position of an insurer. Interpretation of the movements from one year end to another can be made more difficult by currency movements - perhaps some identification of the impact of currency movements should be given.

Form 13 could, however, be reduced from three pages of detail to one without any serious loss of usefulness, by an audit opinion and directors certificate as at present. Supported proper consolidated information would enhance the meaningfulness and streamline the information.

Form 15 could be enhanced by comment on method used or any significant assumptions made.

Form 16 would be more useful if it provided full details of the movement in net assets. This is commonly not the case at present owing to, for example, unrealised appreciation of investments, foreign exchange translation differences or changes in the value of inadmissible assets.

Form 20

A revenue account prepared for each general insurance accounting class. It is arguably the cornerstone of the whole Return and should be retained. The working party feel some improvement could be made in definition of accounting class (e.g., splitting personal from commercial, homeowners from commercial property or Home Foreign from UK domestic). This is important because deletions of Forms 31 - 35 will remove all reference to risk groups.

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Form 21

Form 21 provides an analysis of premiums by month of policy inception and enables the unearned premium reserve to be evaluated. The DTI could monitor the unearned premium reserve through simple ratio analysis and Form 21 is not considered essential. Additionally, Form 21 can be time consuming to complete if appropriate EDP support is not available or manual adjustments have to be made (e.g., for pipeline premiums or areas of activity not accounted for on the mainstream computer system of an insurer).

The only significant information lost through abolition of Form 21 would be the gross/reinsurance/net split. This split could be disclosed elsewhere through minor modification of another form (e.g., Form 20).

Form 22

A relatively compact analysis of claims, expense and commission costs. Form 22 is useful support to Form 20 and should be retained.

Form 23

Provides a summary of the claims reserving run-off record. While it is recommended that the more statistically-orientated DTI Forms should be dropped if actuarial reporting is adopted, Form 23 could usefully be retained because it provides "high level" information.

Forms 24, 25 and 26

Form 24 provides a summarised underwriting account for three year accounted business, split between open and closed years. Forms 25 and 26 provide further analysis of premiums but could be omitted without any serious loss of information. To retain the audit trail back to Form 11, the gross information in Forms 25 and 26 may need to be retained in Form 24. If the DTI insisted on their retention to identify the UK/overseas split, key information on Forms 24, 25 and 26 could be consolidated.

Forms 27 and 28

Form 27 equates to Form 24 but is completed for open and closed year accounting business. Form 28 equates to a combined Form 25 and 26.

We recommend that Form 27 be retained and Form 28 omitted in line with the stance taken for Forms, 24, 25 and 26 above.

Form 29

Introduced by the DTI as a supplementary form sometime after the remainder of the Form 20 series. Information is presumably, therefore, regarded as essential by the DTI. Form 29 presents no real difficulty in completion.

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Form 30

For many companies, Form 30 requires a lengthy and highly detailed disclosure of reinsurance arrangements. Despite this, it is difficult to convey the individual importance of particular treaties and the way in which they interact with each other.

We consider that it would be more efficient from the point of view of both insurers and the DTI if requirements were modified to a description of the reinsurance arrangements summarising how each underwriting account is protected. Actual details of reinsurance contracts would be restricted to major protections.

Additionally, the description could extend to include regulation 17 and 18 (ICR 1983) style disclosure of major reinsurers and their connection. (Regulations 17 and 18 themselves would then no longer be required.)

Forms 31 - 35

These Forms provide analyses of exposure to risk (measured by both premium and, for Motor, vehicle years) and claims for both one year and three year accounting. Certain information is required by risk group by underwriting year and the volume of data can be very considerable. In practice, these five forms commonly represent well over half the DTI return (By volume).

If actuarial reporting were introduced, we consider that the DTI should no longer require volumes of statistical data in Forms 33, 34 and 35 because the responsibility for reserve adequacy would be largely delegated to the actuary. Forms 31 and 32 might need to be maintained to show the current in force exposures (type of risks being written now) unless the actuarial opinion specifically covers unexpired risk reserves. (NB if the actuary suggests the need for an unexpired risk reserve as well as unearned premium reserve then it may be concluded that business being written now is unprofitable). Indeed, it has been argued that a switch to actuarial reporting would be unattractive to the industry if it were not likely to lead to cost savings through reduced filing requirements.

(The information on profitability/exposure split by risk group in Forms 31 and 32 would now be shown in Form 20, for example by expanding accounting classes or by allowing more flexibility.

Forms 36 and 37

The information provided on currency rates and Community co-insurance operations is easy to provide in normal circumstances. Its use to the DTI is unclear, however, and removal of the existing filing requirement should be sought, subject to any European Community requirements.

Cont ...

SECTION 2 - PART B

CHANGES WITH AN OPINION ON OVERALL FINANCIAL STABILITY (SOLVENCY)

The existence of an actuarial opinion on solvency would provide an opportunity for further rationalisation of the DTI returns. The extent of changes in the forms will depend on the scope of the opinion.

The modifications that arise from an opinion on the technical reserves outlined in the previous section would still apply.

The first extension of the opinion on technical reserves might be a statement that the liabilities had been assessed in the context of the given assets (as is effectively part of the current actuarial opinion for life business). It can be argued theoretically that if assets are shown at market value and are such that they match the claims run-off pattern then it would be consistent to show technical reserves on a discounted basis. In practice, of course, the liabilities are of a probabilistic nature, which together with any limitations on the availability of suitable assets makes this an argument to be treated with some caution. Another stage needed to achieve a full opinion on financial stability would be consideration of current and projected profitability. This would effectively necessitate use of discounted reserves (or allowance for future investment returns). In both these cases if changes to the DTI returns stopped at the asset valuation forms this would not be sufficient.

There would still be the need to comply with European regulations, and a statement of the European Community solvency margin would be required. There would be the need for some comment on the adequacy (or inadequacy) of this margin for the company under consideration. This step might be necessary if other countries were unwilling to move to a more comprehensive opinion.

If a full opinion on the financial stability of the company was being given, then the approach could be on a going concern basis, a break-up basis or both. A break-up basis would be consistent with some of the basic principles of the DTI's current approach. The information requirements of each approach are similar. There might be a case, if using a break-up basis, for showing information currently omitted e.g., extra claims handling expenses, IBNR for latent liability claims, value of assets in a forced sale, or allowance for inadequate reinsurance cover in run-off.

As a reminder, the following are some of the issues the actuary should consider when giving an opinion on financial stability, in addition to reserve adequacy. These issues apply to both the break-up and the going concern basis.

- Can the existing business be run off at an expense level which would be covered by the (technical) provisions?

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- Is the market value of the assets a good indication of the values for which assets could be realised e.g., as the business is run off?

- Is the solvency margin adequate to cope with future business, bearing in mind first, the type of business being written, and second, the rate of growth of new business, and third, possible developments in the rating levels for such business? (1)

The following suggested changes to the DTI forms assume a full actuarial opinion on Financial stability is given on a break-up basis. Due regard is given to "freedom with publicity" and to the issues listed above.

(1) Chris Daykin, Lifting up the balance sheet, Post Magazine.

Cont ...

FORMS TO MODIFY OR ELIMINATE (OVER AND ABOVE THOSE IN SECTION 2 PART A)

Form	Description	Comments
9	Statement of Solvency	Although now redundant, would be needed to show data for E.C. regulations. Some simplification may be possible.
11	Calculation of required solvency margin (first method)	
12	Calculation of required solvency margin (second method)	
13	Analysis of Admissible Assets	Change rules, keep form as the only display of asset data, but admissibility regulations redundant with opinion on financial stability.
20	Revenue Account	Risk Group/Accounting Class definition can be made more flexible, with the actuary determining which classes are significant enough to be shown separately.
29	Analysis in respect of non-proportional and certain proportional treaties.	Potentially useful if modified to be as simple as Form 23. Sometimes adequacy of funds is not monitored (direct/fac).
30	Summary of reinsurance business ceded.	This would be more useful as a brief descriptive narrative. Note that the actuary will have considered the security and appropriateness of the reinsurance programme.
31	Analysis of exposure to risk as measured by premiums.	The actuary should be able to do a better job than these forms at measuring potential loss experience in the future.
32	Analysis of exposure to risk as measured by vehicle years.	
Regulation 19	Major cedants	The actuary would comment on any cedants of significance.

Cont ....

SECTION 3

Two thoughts for further discussion

We have already mentioned the need to bear in mind the UK's position compared with other European Countries; particularly the wish not to make the UK less attractive as a market by imposing excessive supervisory requirements. As UK Companies already have their systems geared up to produce DTI returns, most perceive there would be an extra cost in making change. However, the pace of harmonisation in Europe may force change, and perhaps we should take the lead by trying to introduce a better reporting regime now - better management information and an awareness of the qualities that actuarial reporting can bring. There may be a cost to pay for these improvements. The Actuarial profession needs to be clear what basis it sees for justifying its involvement - this may not be purely by saving the need to publish data in DTI return format.

Finally, the working party do see a time when forms needed for regulatory purposes will be merged with those needed for Companies Act account or stock exchange purposes. This is understood to be the position in Germany at present. This could also serve to set the business being monitored in the UK, in the context of a worldwide organisation and identify exactly what other calls (whether strictly required by law or otherwise) may exist on funds and affect either financial stability or adequacy of technical reserves. The recent SORP and proposed European Directive making accounting data (more) consistent means this is now a feasible option. There may be concern over the potential volume of such reports and timetabling problems but it is understood that in USA, statutory filing is made four weeks after the end of a given accounting period.

Working Party Members

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Cont ....

INTER-RELATIONSHIP OF FORMS 9 TO 16 AND 60 AND 61

Appendix 1(a)

'P' = Purpose of form

'C' = Content of form

'I' = Inter-relationship with other forms

'O' = Observations

FORM 60
REQUIRED MINIMUM MARGIN – LONG TERM BUSINESS

FORM 61
SUPPLEMENTARY ACCIDENT AND SICKNESS INSURANCE – CALCULATION OF REQUIRED MARGIN OF SOLVENCY

NB: DISCOUNTED claims incurred used by some companies with NO other changes
=> potential 'difficulties'/weakening

FORM 12
GENERAL BUSINESS CALCULATION OF REQUIRED MARGIN OF SOLVENCY – SECOND METHOD AND STATEMENT OF REQUIRED MINIMUM MARGIN

FORM 11
GENERAL BUSINESS CALCULATION OF REQUIRED MARGIN OF SOLVENCY – FIRST METHOD

P: EEC minimum solvency calculations premium based (F.11); claims based (F.12)

C: Gross earned premiums for whole Company x EEC solvency. It's x proportionate total claims incurred NOT reinsured (note 3(a))

I: stand-alone

O: limits maximum reinsured allowance to 50%

FORM 9
STATEMENT OF SOLVENCY

P: Statement of solvency

C: Net available assets + minimum required net assets

I: Master form

O: Fundamental requirement under any regime

EEC requirements have been harmonised
=> No way that UK will consider stricter (or more lenient) requirements

NB, though, effectiveness 'suspect' because of differences in business classes' volatility etc

Appears to conflict with actuarial 'certification to do with final strength;
But could still be produced as statement of European solvency with 'advisory' certification

FORM 15
LIABILITIES (OTHER THAN LONG TERM BUSINESS)

P:

C: List of liabilities x Reserves/Current/Other

I: Booked up in earlier forms

O: No Valuation rules => allows current regulator to consider

= Concise summary which is useful + important

= + NB: DISCOUNTING issue => room for guidance on liability valuation to ensure consistency + fairness

FORM 14
LONG TERM BUSINESS LIABILITIES AND MARGINS

FORM 10
STATEMENT OF NET ASSETS

P: Summarises net asset amount

C: Total assets – Total liabilities = Net assets
[by shareholders' capital/premium/reserves]

I: Link Form

O: Little use in own right;
could be merged with F.9

FORM 13
ANALYSIS OF ADMISSIBLE ASSETS

P: Overview of asset composition

C:

I:

O: Doesn't necessarily disclose asset breakdown anyway

= NB: can't assume accounts available to supplement (eg branch of overseas Co.)

= Back to potential for actuarial certification (re assets)
+ audited total against specific DTI Valuation Rules

= unwieldiness of dependent co. valuation rules are a burden

= eg debt split x ceding insurer + reinsurer may go through same broker accounts
=> different split for co. so analysis potentially useless

COULD STREAMLINE NOW; ALREADY SUPPORTED BY (existing) DIRECTOR'S/AUDITOR'S CERTIFICATES

FORM 16
STATEMENT OF OTHER INCOME AND EXPENDITURE

P: Summary Revenue accounts

C: underwriting (insurance?) result + investment income BUT notable omissions

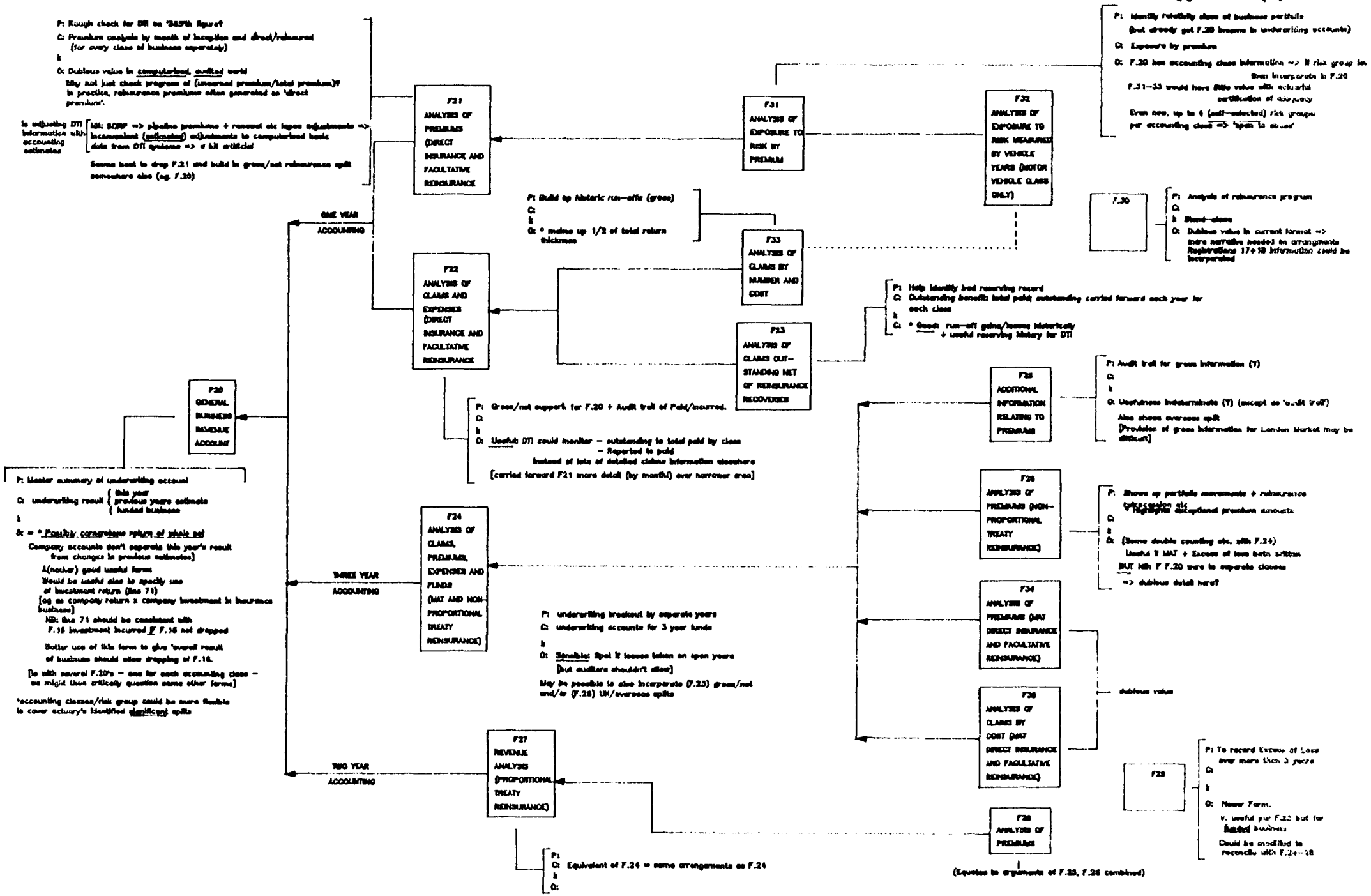
I:

O: major omissions are capital value changes + future results
=> no way of tracing changes in net assets
=> + Purpose/effectiveness unclear
Since forms are geared to solvency + net assets
F.16 should include reconciliation of movements in net assets
Probably required even with adequacy certification

CHOICE IS TO GET RID OF ALTOGETHER OR IMPROVE

INTER-RELATIONSHIP OF FORMS 20 TO 35

Appendix 1(b)



Appendix 2

PRINCIPLES AND PURPOSE

This section represents in abbreviated form some of the points which were discussed from time to time by the Working Party. We have left them in as an aide-memoire.

Purpose

a) To give the DTI timely access to data that with proper interpretation could give early warning of the risk that an insurer might become insolvent, and thus unable to discharge its obligations to policyholders.

b) At the same time to make available published information to third parties (freedom of action with publicity) for their own monitoring purposes and analysis. This is not as important as (a).

Principles (understood to underlie current DTI returns

a) Freedom with publicity.

b) On a nominal break-up basis, although in practice hybrid.

c) In a standard format.

d) Giving objective and prudent data.

e) Data stand-alone and not needing supplementation for a full interpretation.

f) Audited data.

g) Applicable to all insurers operating in the UK market.

Constraints

a) The data in DTI returns should be consistent with the information in other returns and accounts. The data should be readily available and used for internal management information and Companies Act accounts. The degree of supporting detail may need to vary with purpose.

b) The returns should achieve maximum effect at minimum cost. There will need to be judgement in grey areas about what is 'nice to have' rather than necessary.

c) When originally introduced in the early 1970s, the DTI returns forced the pace of management thinking for insurance companies. The purpose now is one of maintaining a given discipline.

d) The DTI has limited resources, particularly compared with those of the supervisory authorities in other EC countries. The DTI approach is a sifting one, giving most companies a cursory review and concentrating on borderline cases. They may draw on industry advisors to help decide which need more thorough appraisal.

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e) The DTI returns focus on historic data. Problems can just as easily arise from business currently being written, or from 'soft' factors such as quality of management, legislative changes, court awards.

f) Under certain circumstances, the DTI can request more data.

g) There is a difference of purpose for long term DTI returns compared with short term.

h) The DTI returns cover only business which the DTI is responsible for supervising. They exclude business written outside the UK by subsidiaries and non-insurance subsidiaries/parent companies.

Other forms of return

a) Companies Act accounts - scope consolidated, worldwide; recent SORP should improve degree of comparability; EC Accounts directive will eventually impact, but this is not expected to be finalised for two or three years.

b) Stock exchange requirements were these exceed those of the Companies Act.

c) Tax accounts.

d) Other legislation such as FSA or SIB/LAUTRO type

UK Compared with other EC

a) UK approach seen as imposing fewer constraints, but some divergence of opinion on this point from overseas.

b) Harmonisation may bring some convergence between countries, but progress still slow.

Cont ...

APPENDIX 3

Even under the current regime certain improvements may be made to the content and format of DTI Returns. This section pulls together different suggestions from various sources (e.g., ABI working group). Some of the suggestions may be more relevant from a specific viewpoint than a general one (e.g., from a London market view where a case for special treatment might exist).

SUGGESTIONS FOR 'LIFTING THE BURDEN'

1. Abolish any Forms not utilised by DTI themselves:

   If it has not already been done, the DTI should critically review the current utilisation of DTI Forms. Possibilities include:-

   a) The preparation and submission of five copies of a Statement of Connected Persons authorised to invite another person to enter into insurance contracts with a company is extremely onerous in terms of the volume of detail to be examined and the time spent. Section 22 (2) ICA 1982 could be repealed.

   b) Regulation 19 (ICR 1983) requires information on major cedants. it is difficult to see how this information could be used in a direct way to monitor solvency, the primary purpose of the Returns, although it may put the DTI on enquiry if a major cedant was known to be in difficulty.

2. Introduce de-minimis thresholds for forms and analyses:

   Introduction of de-minimis thresholds could save a considerable amount of time; many insurers write incidental classes of business or have accounts running off.

   Thresholds might operate by only requiring Form 20 for any accounting class or risk group which comprises less than 10% of either premiums receivable or claims payable. The DTI might want to make an exception for new classes of business underwritten, or request notification of which classes of business fell below the threshold?

   The adopted percentage threshold would need to be increased for Regulation 12 (1) (a) (ICR 1983) concerning the need for separate Forms 31 to 35 for overseas branches.

   Additionally, removal of the applicability of Regulation 11 (ICR 1983) to reinsurance and Marine, Aviation and Transport Business (classes 3, 4, 5, 9 and 10) would be beneficial.

3. Electronic transfer:

   Electronic transfer of data was originally envisaged, and the DTI return format is governed by the need to act as a computer input, but currently submission by direct electronic means is not permitted. Diskette transfer facilities for example, would save Form production and printing costs and presumably involve savings for the DTI in data input.

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Provision of copies of returns to shareholders and members of the public on request

Section 23 ICA 1982 requires copies of Returns to be provided in full to shareholders and policy holders on request. Improvements to financial statements already referred to should make this requirement unnecessary.

5. Resubmission and recertification:

Correction of minor inaccuracies should avoid if possible the resubmission of entire Forms and recertification of them by auditors.

6. Admissibility limits - groups of companies:

Regulation 40 (ICR 1981) requires admissibility limits to be calculated for each insurance subsidiary. For a large insurance group this can be a very major task.

Amendment of the Regulations to allow a calculation on a group basis or alternatively dispensation granted under Section 68 ICA 1982 would be beneficial, whenever groupings of insurance companies were being considered.

7. Forms 13 and 15

Forms 13 and 15 require splits of receivables and payables between premiums and claims and between facultative and treaty business.

Practice in the London market makes this analysis difficult. It would be far simpler for insurers to be required to provide totals of insurance debts or liabilities without analysing amounts between premiums and claims and after offsetting in respect of individual brokers, cedants or reinsurers.

8. Form 25

Information required on Form 25 is largely duplicated on Form 34. Consideration should be given to combining these Forms.

9. Portfolio Transfer

The usefulness to the DTI of requiring portfolio transfers to be disclosed on Forms 26, 27, 28 and 29 should be reconsidered. The information is not always readily available and represents another complication for accounting practices.

10. Form 29

Form 29 is now fully operational, is there any need now to retain Form 26 and could Forms 27 and 28 be abolished with proportional treaty business being disclosed on a Form 29?

Cont ...

Additionally, for facultative reinsurance, line slips and binders; very similar information is provided on forms 34 and 35 (for accounting classes 3, 4 and 5). Amalgamation of this information into Form 29 would be beneficial.

11. Form 30

For many companies, Form 30 requires a lengthy and highly detailed disclosure. Despite this, it is difficult to convey the individual importance of particular treaties and the way in which they interact with each other.

We consider that it would be more efficient from the point of view of both insurers and the DTI if requirements were modified to a description of the reinsurance arrangements summarising how each underwriting account is protected. Actual details of reinsurance contracts would be restricted to major protections.

Additionally, the description could extend to include Regulation 17 and 18 (ICR 1983) style disclosure of major reinsurers and their connection., Regulations 17 and 18 themselves would then no longer be required.

12. Forms 31 to 35

Preparation of Forms 31 to 35 until extinction is excessive. In our view, provisions should be introduced for a cut-off once the analysis has ceased to be material. Materiality would be measured by reference to the total for the accounting class in question.

13. POSSIBLE MODIFICATIONS

We set out below a number of suggested modifications which would enable the existing Forms to become more meaningful:

a. Form 21 does not allow pipeline premiums or lapse provisions (as defined in the ABI SORP) to be dealt with easily.

b. Forms 22, 23 24, 27 and 29 do not acknowledge the possibility of discounting. This basis for reserving is becoming more widespread and analysis should be capable of showing the discount unwinding. Where discounting is used, this is fundamental to the underwriting result.

c. A significant amount of information is normally disclosed on Form 33. We recommend discussion with insurers, actuaries and accountants to establish whether a more useful means of obtaining this data could be established. We also note that disclosure of claims numbers can be misleading due to different definitions of claims and differing mixes of business between accounts.

d. Currently whole account reinsurances have to be allocated across accounting classes. Modification of the summary Form 20 which aggregates underwriting results for all business classes would be beneficial; avoiding the need for allocations and allowing whole account reinsurances to be disclosed in their proper context.

Cont ....

e. Comparability of treatment between companies is beneficial both to the DTI and to other users of DTI Returns. We note that Regulation 10 (ICR 1983) is not being strictly applied by all companies. This requirement could be emphasised by including in the Directors Certificate an opinion that the risk group classification adopted for the purposes of DTI Returns comprised risks within an accounting class insured by the company which are not significantly dissimilar either by reference to the nature of the objects exposed to such risks or by reference to the nature of the cover against such risk given by the company.

14. MODIFICATIONS TO FORMS

Many companies have developed or acquired software to assist with DTI Return completion. Update and amendments of these programmes can be very expensive.

It is, therefore, preferable to introduce any technical modifications now deemed necessary by the DTI at the same time as streamlining existing requirements. The revised DTI Forms should incorporate all necessary updates to allow maximum deferral of the next round of changes.