

# 'How To' – Financial Condition Reporting

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## Key issues

- Data. Get this right and it's 'Easy'
- Technical reserves and solvency; virtually all good things follow adequate reserves – and solvency
- Timing. Knowing the extent of work involved and being prepared is good for everyone
- FCRs should be rote in their production. For you it should have BI/MI use and for regulator it should give comfort competent people are in charge



## Data – we cannot overstate the importance of clean data

- Actuaries know and love data
- It's a statutory but also professional requirement
- Get it right – we focus on Value Add and Quality Work
- Get it wrong – duplication of work, missed deadlines and general discontent
  
- We provide you with a generic data request
- Your best IT person should take responsibility and extract this data
- Reconciliation with financial statements is key



## Regulatory Requirements (1)

- Section 2 Article (10)
- Evaluate Technical Provisions, also quarterly
- Evaluate Pricing & Procedures (Expenses)
- Evaluate Reinsurance Structure and Management
- Risk Based Analysis of Investment Portfolio
- Solvency Capital Assessment
- Risk Based Analysis of UW Policies and Procedures
- Evaluate ERM Policies and Procedures



## Regulatory Requirements – Technical Provisions (2)

- Section 3 Article (3)
- Ensures adequate liabilities and assets to pay for exposure already sold, to reporting date and after
- Adequacy of pricing, solvency, cash-flow and ALM
  
- OS Claims – taken from company
- IBNR & IBNER – the Big One
- UPR – straightforward, except if AURR... (PAIN)
- ULAE – are you booking this?
  
- DAC and UECL – not required but should book
- Future Premium – asset which may give you a million or two
  
- Back-testing!



## Regulatory Requirements – Pricing (3)

- Express an opinion on whether pricing adequate; early warning to management and regulator
- Usually consider combined ratios, so need to perform expense analysis
- Straightforward for Motor and Medical if you know what you are doing
- Trickier for other lines, often not able to express an opinion



## Regulatory Requirements – Expense Analysis (4)

- Understand expenses by line of business, for pricing adequacy work
- The usual G&A, commission in and out, XL, etc
- Used for combined ratios, but since much reinsured on some lines we use our Disbursement Ratio to avoid denominator issues



## Regulatory Requirements – Evaluate Reinsurance Arrangements (5)

- Can the company withstand severe circumstance, is it adding value?
- QS – solvency, business volumes
- XL – understanding maximum exposures in light of available capital
- Consider gaps, facultative arrangements, reinsurer strength and rating





## Regulatory Requirements – Risk Based Investment Matters (6)

- Asset/Liability Matching – interest rate movements, liquidity, ability to pay next year or two
- Projecting cash-flow from incurred claims
- Do assets match by term and nature?
- If not, how problematic is it?



## Regulatory Requirements – Solvency Capital Assessment (7)

- Calculate the Solvency
- Usually straightforward
- Few surprises, unless...
- the Technical Reserves are higher than expected.
- Know this beforehand
- Regulations state 100%, you should work on ...150-200% minimum?



## Regulatory Requirements – Risk Based UW Policies and Procedures (8)

- A consideration of UW and Insurance Risk. Others too
- Very much related to Solvency Margin Cover
- Pricing Adequacy
- Reinsurance arrangements and maximum expected strain on capital
- A holistic view follows from all the FCR – and summarised at the end



## Regulatory Requirements – Evaluate ERM Policies and Procedures (9)

- Are companies approaching their business from a risk-based perspective?
- Risk = How often x How Bad (insurance!)
- Risk Matrices; impact and consequence of events
- UW Risk, Market/Liquidity, Credit, Operational
- Policies and Procedures, Documented and On-going
- Risk Officer, Management and Staff buy-in



## Regulatory Requirements – All Tied together (10)

- Analysis of Incurred Claims and Profitability
- We reconcile the Accident year incurred claims (Lux) with the Financial Statement Incurred Claims
- which allows us to
- Reconcile Accident year profitability with the Financial Statement profitability
- This is hard to do – but very insightful and powerful result



## Lessons from KSA, Bahrain, QFCRA regarding FCRs

- Comprehensiveness and Cohesion
  - Competence and Presentation
  - Timeliness
  - Minimise questions from Regulator
  - Anything hidden, any data 'adjustments' catches up within 1-3 years and then its always worse news than at outset
  - In new process, lots of chaos. Stand out at the quality end of the spectrum
- 
- Key: Adequate Reserves
  - Key: Know the main risks
  - Key: Solvency



## FCR use outside of Compliance

- Core Management Concern should be: Pricing, Underwriting, Claims Management
- True accident year profitability
- Direction company is heading
- Main risks/issues to be aware of and address
- Improve reserve estimates, input to pricing
- Understand pricing adequacy better, input to pricing
- Understand expenses better, input to pricing
- Cash-flow and ALM – improve returns?
- Understand risks and their management (RI) better, price risk correctly
- FCR is a reference manual – arguably more useful than the financial statements
- We will gladly help you interpret and use the work – we like questions



## Your relationships with actuary, regulator

- Regulator; we (and they) encourage open and honest communication and disclosure. It's less work (and less expensive) this way
- Actuary; give us clean data and we're happy. It also helps to communicate issues up front as we often discover concerns shortly before deadline and that's disruptive
- Communicate so that we can Accommodate. If there is a good reason for something, then we can explain and justify alternate points of view





## Know Your Actuary

- Using the right actuary; Life for Life, GI for GI
- Experience is crucial – don't let an actuary learn FCRs at your expense. Ask years' experience, how many full GI or Life FCRs done and which jurisdiction
- Fellow of the Institute & Faculty of Actuaries (FIA or FFA) – Exam specialism; ask whether Life, GI, Pensions or Investments
- Fellow of the Casualty Actuarial Society (FCAS) – GI mainly
- Fellow of the Society of Actuaries (FSA) – Life focus, GI from 2014. Exam specialism; ask whether Life, GI, Health etc
- Associate (AIA or AFA / ACAS / ASA)
- Certified Actuarial Analyst (CAA)
- Actuarial Student
- We have seen actuaries kicked out of KSA and Qatar – don't be the company associated with such an event since you will redo the FCR at full cost



## Timing

- 45 days for quarterly reserves, we allow ourselves 21 days, to accommodate the auditor (clean data!)
- Combine all reports for Section 2 Article (10) and whole of Section 3 in one FCR at year-end
- Before implementation we recommend reserving exercise so that the unknowns are quantified
- And end 2015 FCR for internal use would be money well spent – don't be caught off-guard



## Questions

Handout shows

- Generic Data Request
- Typical FCR contents

The handout is complimentary to this audience and hopefully you can use this it your advantage.

Thank you for your time and attention