



Institute of Actuaries of India

FCR in General Insurance - Professional Issues

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*Indian Actuarial Profession
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Agenda



- Background
- IRDA circular on Financial Condition Report (FCR)
- GN31: GN on the Financial Condition Assessment Report for General Insurance Companies
- Professional Issues & Suggestions
 - Financial Condition Report
 - Role of Actuaries

Background



- Globally, we are witnessing a regulatory shift from compliance based supervision to risk based regulation.
- Along with this shift has come shift in responsibilities, regulators now rely more and more on 'self regulatory organizations' and 'independent professionals' (such as actuaries) for both compliance as well as risk based supervisory analyses and actions.
- One of the main reason for increased reliance of regulators on professional is their remoteness from business and along with the fact that the actuaries ('professional') are in a better position to be aware of management's operational responses to material events.

IRDA circular on Financial Condition Report



- **Objective:** The objective is to analyze the current block of business as on valuation date to bring out clearly the risk the insurers carry in terms of meeting solvency requirements, profitability, others risks viz., morbidity, liquidity, credit and expense, investment return, asset liability mismatch etc.. This exercise will also indicate the insurer's position for the next one year. In this context, this analysis also enables
 - to examine and discuss the sensitivity of the future solvency position to potential changes in the economic environment, claims experience and pricing strategy and all other relevant factors;
 - build an early warning signal in the long run;
 - Company's Board and the Authority to arrive at a comprehensive view on the company.

IRDA circular on Financial Condition Report



- The meet the objective, IRDA prescribes the FCR to be:
 - Structurally dynamic to meet the changing risk profile of the insurer; however, provides detailed format for each section.
 - Where possible, analysis to be both at Gross and Net basis
 - Appointed actuary to analyze each section of the report
 - Covers following areas
 - Business Projections
 - Analysis of business growth
 - Analysis of experience
 - Adequacy of premium
 - Adequacy of reserves
 - Reinsurance
 - Risk management
 - Adequacy of capital
 - Investment and ALM
 - Miscellaneous - Complaints
 - Current Financial Condition
 - Future Financial Condition

- General guidance :
 - Actuary to assess materiality of risk for reporting based on judgment.
 - AA to make recommendation on adverse findings
 - AA to quantify uncertainty where feasible or to provide description.
 - Provide detailed methodology and calculations for non standard approaches.
 - State assumptions clearly along with its implications.
 - AA to check reasonableness and accuracy of data provided to him/her for FCR.
 - Data not captured by company should be pointed out by AA and plan to be put in place to capture such data in discussion with management
 - Reliance on other actuary or professionals work should be stated along with steps taken to ensure its objectivity.
 - Limitations of the report should be stated.
 - AA to set the target audience of the report and a note of cautions for other readers.
- Also provides guidance on specific sections of the report

Professional Issues - Financial Condition Report



- What does “Financial Condition” mean?
 - Adequate resource to meet liabilities
 - Within risk appetite
 - Profitability : Optimal risk adjusted return
- The reporting template covers broad range of financial aspects. However, its difficult to understand the ability of the company to meet liabilities even if things go wrong – probabilities are not defined.
- Correlations are not covered (i.e. possible aggregation /diversification of risk)
- Fair valuation of Assets and Liabilities is emerging as global best practice
- Liquidity Risk, an important risk for General Insurance Companies, is difficult to measure.
- Training required for Operational Risk identification and assessment.

Professional Issues – Increased role of Actuary



- Preparation of FCR provides actuaries with an opportunity to add value in the financial and strategic decision making of the company.
- We should avoid creating a ‘tick-box’ compliance culture
- Instead of just considering regulator as our audience, we should and also consider internal management.
- Instead of just reporting ‘What’ and probably touching ‘So What’, we should also think about ‘What Next’ and take a step forward towards engaging with other departments in areas of:
 - Data collection and analytics
 - Actuarial inputs in decision making
 - Risk quantification, etc.... in a language they understand.

References



- “Financial Condition Report for Non-Life Insurance Companies”, Cir No. IRDA/ACTL/CIR/MISC/081 /05/2010, IRDA
- “GN31: GN on the Financial Condition Assessment Report for General Insurance Companies”, Institute of Actuaries of India
- Thomas E. Power, “Financial Condition Reporting Issues in General Insurance : Challenges for Actuaries”, 7th Global Conference of Actuaries