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Making a big difference to a little insurer

The new Appointed Actuary regime

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Where's Jonathan?

Agenda

What is a little insurer?

How can the actuary add value?

Ensuring that the job gets done

What will happen next?

What is a little insurer?
Understanding the context

What do we mean by a little insurer?

A little insurer is not necessarily a small insurer as defined under the regulation. We have focused on insurers who had never used an actuary prior to the I(PS) Act.

What does a little insurer look like?

Often a subsidiary designed to assist parent

- This has implications for the work of the appointed actuary
- The level of insurance expertise of the management and Board of the insurer will be a key factor

What is a little insurer?
What are their views on the regulation?

The good, the bad & the Actuary

- The good
  - Appreciate the rigor imposed by the regime
  - Highly engaged in the licensing process
- The bad
  - Regime is a waste of time
  - Looking to do the bare minimum to meet requirements

The Actuary has a professional responsibility to discourage an insurer from viewing their work as a box-ticking exercise.

Question: What should the Actuary do if the insurer shows no interest?

What is a little insurer?
What issues do they face under the regulatory regime?

New requirements of the regime

Some of the current issues a little insurer may have to deal with are:

- Higher capital requirements when lose Small Insurer exemption
- Six monthly accounting, and UPR
- Solvency regulations
- Projecting solvency
- Catastrophe risk estimates

How can the actuary add value
Adjusting for the little insurer context

Communicating to an unfamiliar audience

"As an actuary you are in the position of trusted adviser … To be a good actuary you need to be numerate … You also need to be a good communicator. " (Paul Thornton, former President of the Institute of Actuaries and Senior Partner of Watson Wyatt Partners)

"These days the greatest requirement for a good actuary is the ability to communicate well and that's the one quality they're reputed to have least of." (Tim Evans, former Chief Actuarial Officer at Jardine Reeves Brown)

- If advice is not understood, it has no value
- Cannot rely on reputation

How can the actuary add value
Adjusting for the little insurer context

Focusing on the finer details

- Little insurer does not mean less work
- Small numbers matter more

Question: Are any shortcuts/approximations acceptable?

A good review process

- Small errors can be more significant

Question: How do we encourage a strong peer review process?

Ensuring that the job gets done
Fulfilling regulatory requirements

Solvency return

There may be minor issues the are more relevant to a little insurer.

- Insurance risk capital charge
- Concentration risk capital charge
- Interest rate capital charge
- Reinsurance risk capital charge

Ensuring that the job gets done
Fulfilling regulatory requirements

Projecting future solvency

Little insurer more likely to be at greater risk to volatility of future events. This is an area where the Actuary can use their skills to help quantify key risks the insurer faces.

Question: What are good techniques for projecting future solvency?

Scenario testing of future solvency may provide useful insight to management about impact of key risks.

Need to make management aware that regulatory solvency is different to accounting solvency, to enable mitigating steps to be taken.

Ensuring that the job gets done
Fulfilling regulatory requirements

Regulatory solvency vs accounting solvency

Consider a simple fictional captive insurer.

Assets	$	Liabilities	$
Cash	3,500,000	Claims payable	0
Fixed Interest	500,000		
Reinsurance recoveries	0	**Reserves & Equity**	
		Capital	1,000,000
		Retained earnings	3,000,000
Total assets	**4,000,000**	**Total liabilities & equity**	**4,000,000**

Actual Solvency Capital	**4,000,000**
Capital charges	
Asset charge	20,000
Insurance charge	800,000
Interest charge	10,000
Reinsurance charge	0
Minimum Solvency Capital	**830,000**
Solvency Margin	**3,170,000**

Ensuring that the job gets done

Fulfilling regulatory requirements

Regulatory solvency vs accounting solvency

What happens if they have a large loss in the next year?

Assets	$	Liabilities	$
Cash	4,500,000	Claims payable	25,000,000
Fixed Interest	500,000		
Reinsurance recoveries	21,000,000	**Reserves & Equity**	
		Capital	1,000,000
		Retained earnings	0
Total assets	**26,000,000**	**Total liabilities & equity**	**26,000,000**

	$
Actual Solvency Capital	**1,000,000**
Capital charges	
Asset charge	25,000
Insurance charge	800,000
Interest charge	10,000
Reinsurance charge	840,000
Minimum Solvency Capital	**1,675,000**
Solvency Margin	**-675,000**

Ensuring that the job gets done

Fulfilling regulatory requirements

Financial Condition Report

To prepare the FCR the Actuary must understand the insurer and their business. The FCR must consider all aspects of the insurer

A number of areas may need to be updated to meet the new solvency requirements, including capital needs, risk management programme.

The FCR should be discussed with management and the Board.

Question: What do you do if the company ignores your advice?

Section 78 Report

Sign-off similar to that of audit report

What will happen next?
Predicting the future trends

Will we continue to follow Australia's lead?

Current NZ regulation similar to APRA following HIH

Australia moving towards a more compliance focused regime. Will NZ follow?

Question: What are the pros & cons of following Australia?

Will the definition of a small insurer change?

Definition will slowly be eroded by inflation.

Question: How will small insurers meet the higher capital requirements when this exemption is breached?

Questions…

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