

Disclosure by Insurance Companies - Global Best Practices

Scope of assessment

Analysis of global best practices with respect to disclosures by insurance companies in their financial statements

Basis of assessment

The assessment is based on the disclosure norms stipulated by the regulators in various developed insurance markets

Relevant statutory filing of select companies for reference

The Prudential Insurance Company of America (Prudential)
Hartford Fire Insurance Company (Hartford)

Major findings

Major finding, as regards best disclosure practices followed globally, both for general and life insurance industry, can be broadly classified under following heads:

- A. Disclosures made in filings with regulator and annual report
- B. Disclosures to be made quarterly, and
- C. Disclosures to increase transparency

A. Annual disclosure

1. Reserves and claims history

- Details of incurred and cumulative net losses and defense and cost containment expenses reported at year end, and bulk and Incurred but not Reported (IBNR) reserves on net losses and defense and cost containment expenses reported at year end, for various business lines over the last 10 years. This should enable better understanding of the trends in claims and also assess adequacy of reserves across various companies. (*Refer page 22 of Hartford filing: Schedule P. This is applicable for general insurance companies only*)
- Details on additions to reserves during the year for all reported business lines (*Refer page 7 of Prudential's filing*)

2. Details for reinsurance assumed and ceded by counterparty on the following:

- Reinsurance assumed – Reinsurance payable/ paid on outstanding claims, reserve and premiums (*Refer page 82 of Prudential filing: Schedule S – Part 1*)
- Reinsurance ceded – Paid claims and outstanding claims (*Refer page 84 of Prudential filing: Schedule S – Part 2*)

3. Investment portfolio

- Break up impaired assets across different classes, provisioning held against each investment class
- Rating distribution of the debt investment portfolio
- Investment income and capital gains/ losses details by instrument type (*Refer page 8 of Prudential's filing*)
- Break-down of debt portfolio by maturity and by quality of asset class (*Refer page 108 of Prudential's filing*)

4. Details like notional and fair value of various derivative instruments entered along with the accounting practice followed, their benefit and risk management practices (*Refer page 29 of Prudential's filing*)

5. Basis of valuation of investments, changes if any, and its impact on valuation

6. Details on pension and post-retirement obligations with assumptions like discount rate used, funding status of these plans and expected benefit payments for the next 5 years (*Refer page 35 of Prudential's filing*)
7. Five year historical data for key financial parameters for income statement and balance sheet (*Refer page 63 of Prudential's filing*)
- ✓ 8. Geographic distribution of premiums written (*Refer page 96 of Prudential's filing*)
- ✓ 9. Business segment wise break-up of business with specific focus on reporting of paid and unpaid losses and Incurred but not Reported claims (*Refer page 10 of Hartford's filing*)
10. Liquidity profile of the company
 - Expected claims over the medium term
 - Liquidity arrangement to pay off the claims
 - Deployment of cash and cash equivalents in various banks by interest rate, amount invested (*Refer page 123 of Prudential's filing*)

B. Quarterly disclosures

1. Quarterly disclosure of information should be encouraged. Globally detailed quarterly are filled with the regulator and are also made public. Apart from other important aspects related to financial performance, quarterly disclosures should capture following aspects also:
 - Policy lapses – across business lines/major product lines
 - Break up and performance of the investment portfolio
 - i. Performance of investments related to linked business and ULIPs
 - Liquidity profile of the company
 - i. Cash flow analysis, highlighting: Cash flow from operations, investment and miscellaneous activities

C. Disclosures to increase transparency

1. Access to information filled with regulator should be made much more accessible. Further the time lag in availability of industry level data should be reduced.
2. Detailed write up on actuarial assumptions for major product classes, comparison of actual with estimates, analysis of variation, if any.
 - Assumptions for interest rates, mortality rate, morbidity rate, expenses and inflation across different product classes should be shared
 - Details of margin for adverse deviation build up in the pricing of the products and utilization of the same during the product life cycle
3. Exposure to riskier sectors (via investment book), what proportion of it exceeds the statutory cap, if any, and steps initiated by the company to address it
4. Detailed capital adequacy computation (in Indian parlance Solvency Margin)
5. Stress testing of the key assumptions in product pricing and its impact on liquidity and solvency of the company
6. Standardization of existing reporting across companies. This will enable more efficient evaluation and speed up the reporting process