

Actuaries Summit

Think Differently



**Actuaries
Institute**

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Globalisation of the Insurance Capital Standard: Should we be concerned?

Paul Caputo and Kenny McIvor

*This presentation has been prepared for the Actuaries Institute 2017 Actuaries Summit.
The Institute Council wishes it to be understood that opinions put forward herein are not necessarily those of the
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Introductions



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Agenda

What is the Insurance Capital Standard?

Should insurers be concerned?

Should Australian insurers be concerned?



The Great Fire of London (1666)



The Global Financial Crisis (2008)





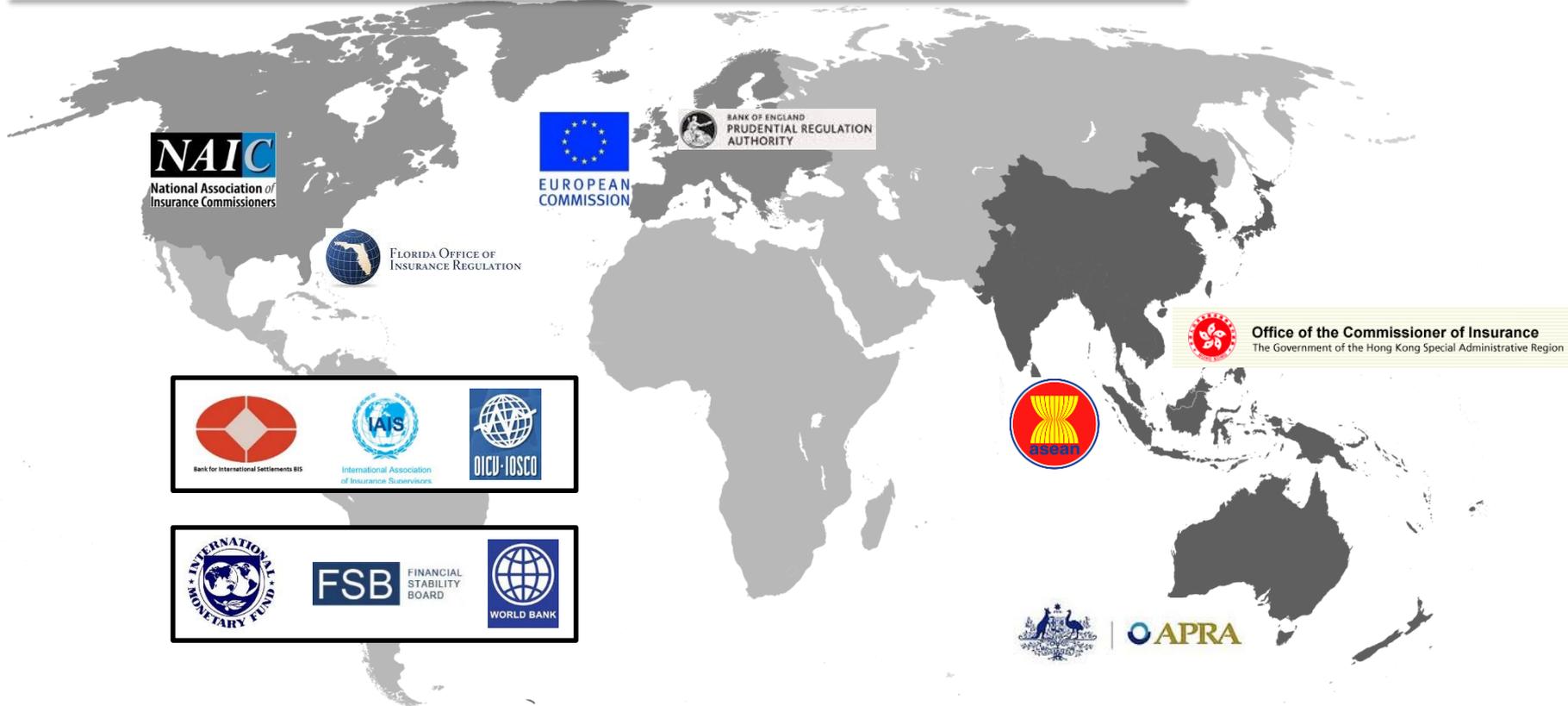
Agenda (additional)

What insurance regulatory developments have followed the GFC?

What have we learnt from other regulatory developments?

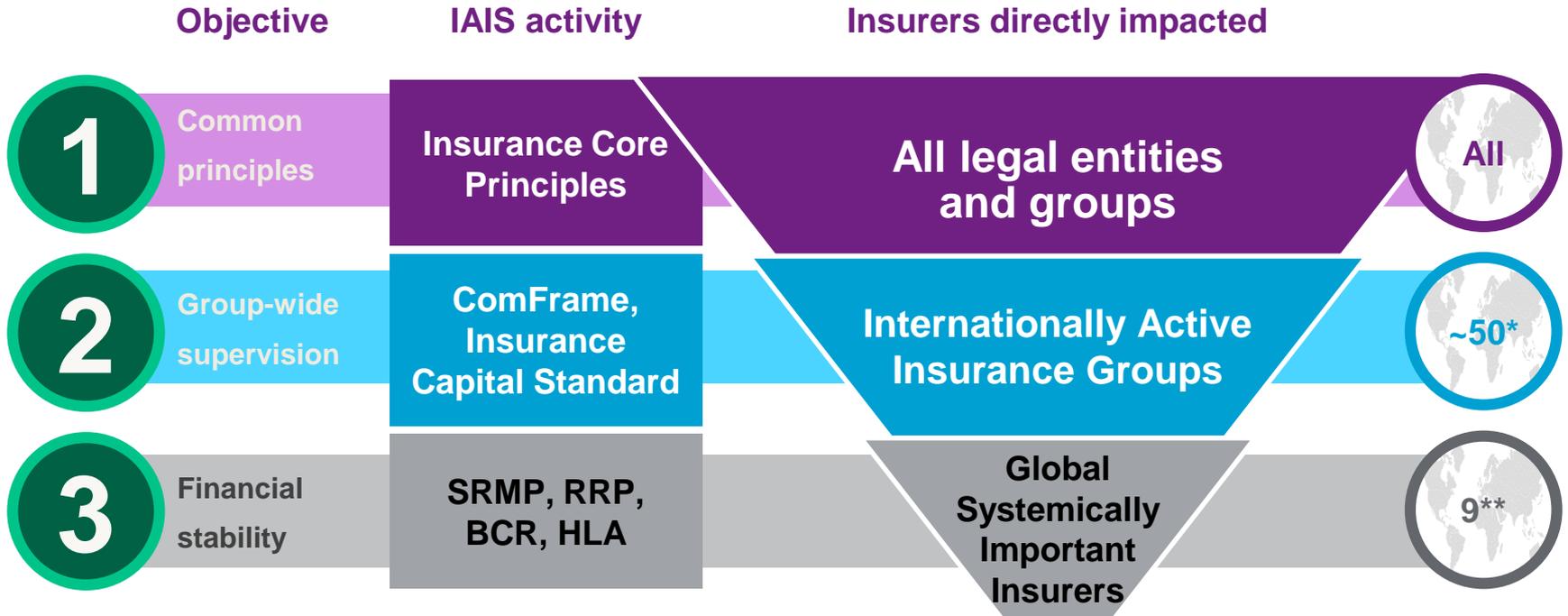
Insurance supervision is influenced by many bodies

IAIS





The activities of the IAIS fall into three broad areas of insurance supervision



* To be identified by supervisory colleges (around 50 expected).

** Identified (annually) by the Financial Stability Board (FSB).

Awareness of IAIS activities is critical to understanding future regulatory direction

IAIS

	Activity	Description / Implication
All	Insurance Core Principles / "ICPs"	? Principles, standards and guidance on all aspects of insurance supervision ! Increasingly adopted as the international benchmark
Internationally Active Insurance Groups / "IAIGs"	"ComFrame"	? Additional reporting, capital and ERM requirements for IAIGs
	Insurance Capital Standard / "ICS"	? Risk-based capital standard to be applied to IAIGs which will phase in by 2019 ! Limited time remaining to feed in on field testing and consultation process
Global Systemically Important Insurers / "G-SIIs"	Systemic Risk Management Plan / "SRMP"	? G-SIIs should be prepared for enhanced supervisory scrutiny ! Consider ways to limit the impact of G-SII regulations
	Recovery and Resolution Plan / "RRP"	? Potentially relevant to a larger group of insurers but G-SIIs are the first to have to comply ! Approach preparations as a value-adding exercise
	Basic Capital Requirement / "BCR"	? Factor-based calculation to be used as a comparable foundation to apply to G-SIIs (to be replaced by ICS)
	Higher Loss Absorbency / "HLA"	? Factor-based calculation to build on BCR / ICS so that G-SIIs hold additional capital linked to systemic risk

Nine Global Systemically Important Insurers are impacted by the IAIS' financial stability measures

**Financial
Stability**



保險 · 銀行 · 投資



Prudential



The New York Times

MetLife Sues Over Being Named Too Big to Fail

FINANCIAL TIMES

MetLife wins 'too big to fail' court battle

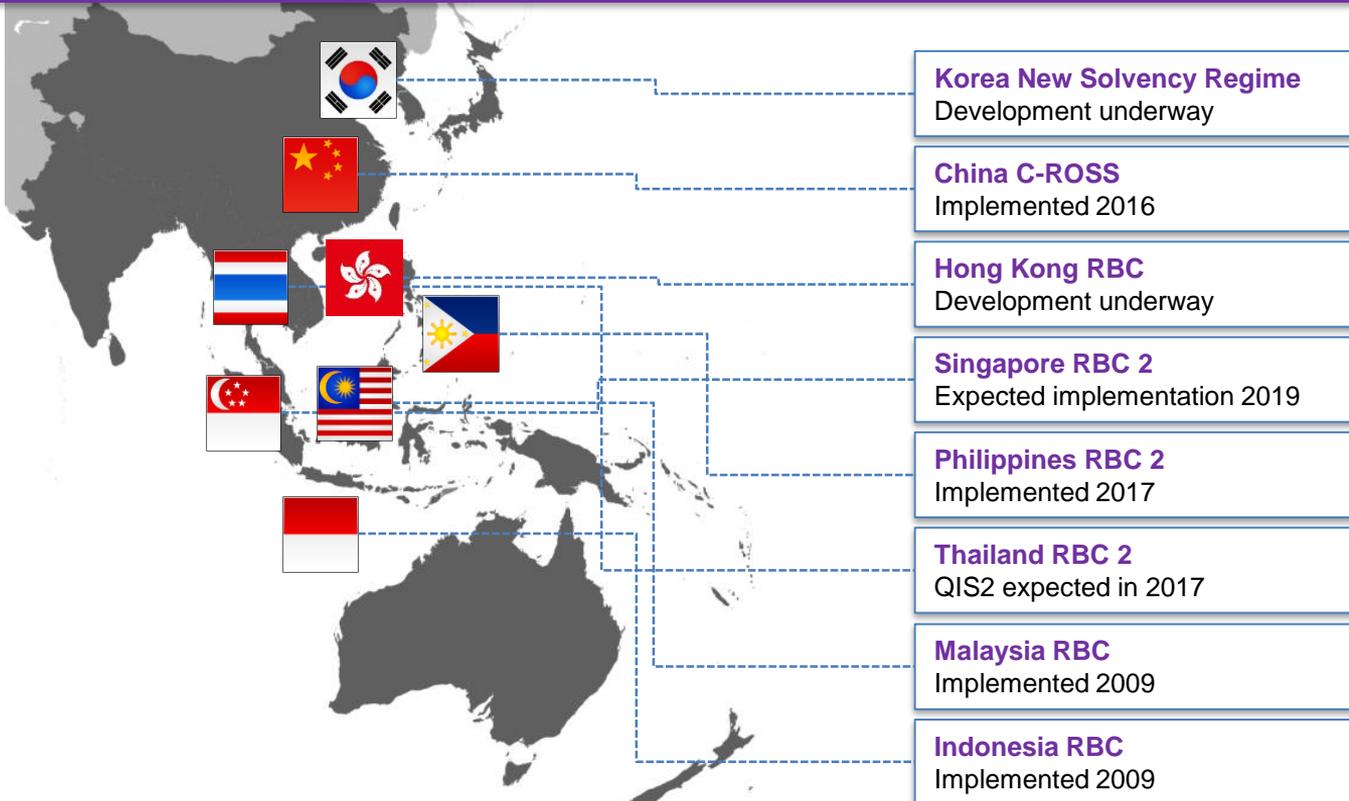
Insurer defeats US government's 'systemically important' financial institution designation

MetLife ruling a spur to give Financial Stability Board teeth

Time to give global advisory body statutory powers to protect world from short-sighted political interests

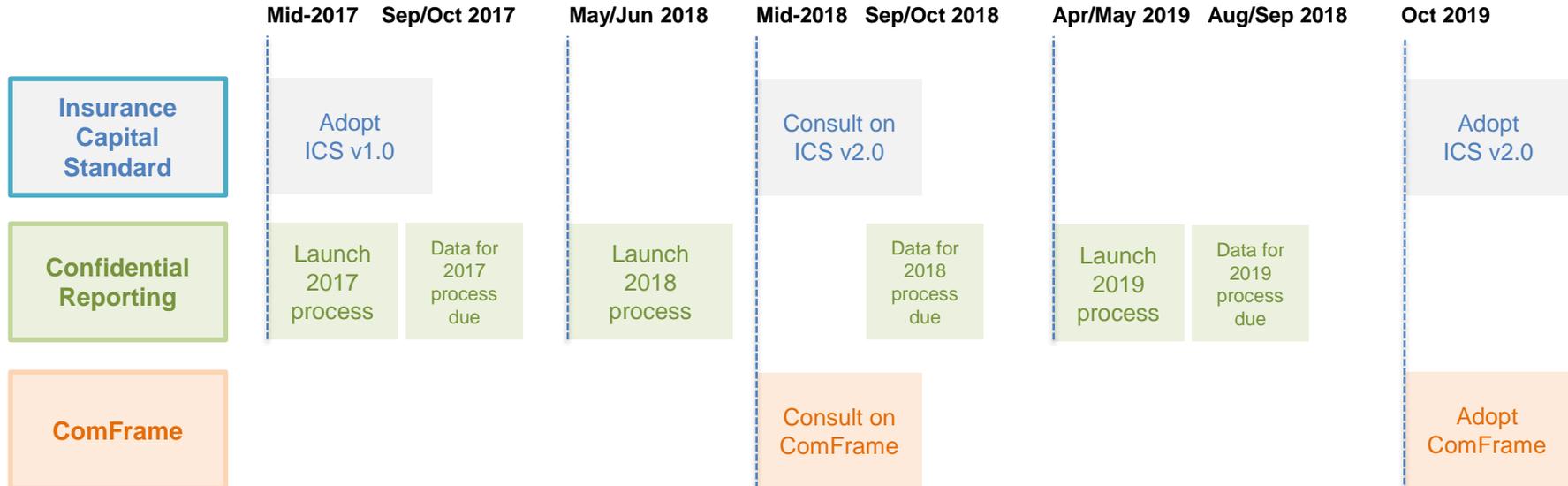
In South East Asia, the IAIS' ICPs are a major driver for the move to risk-based capital approaches

Insurance Core Principles



There is not long left before ComFrame and the ICS come into effect for a wide group of insurers

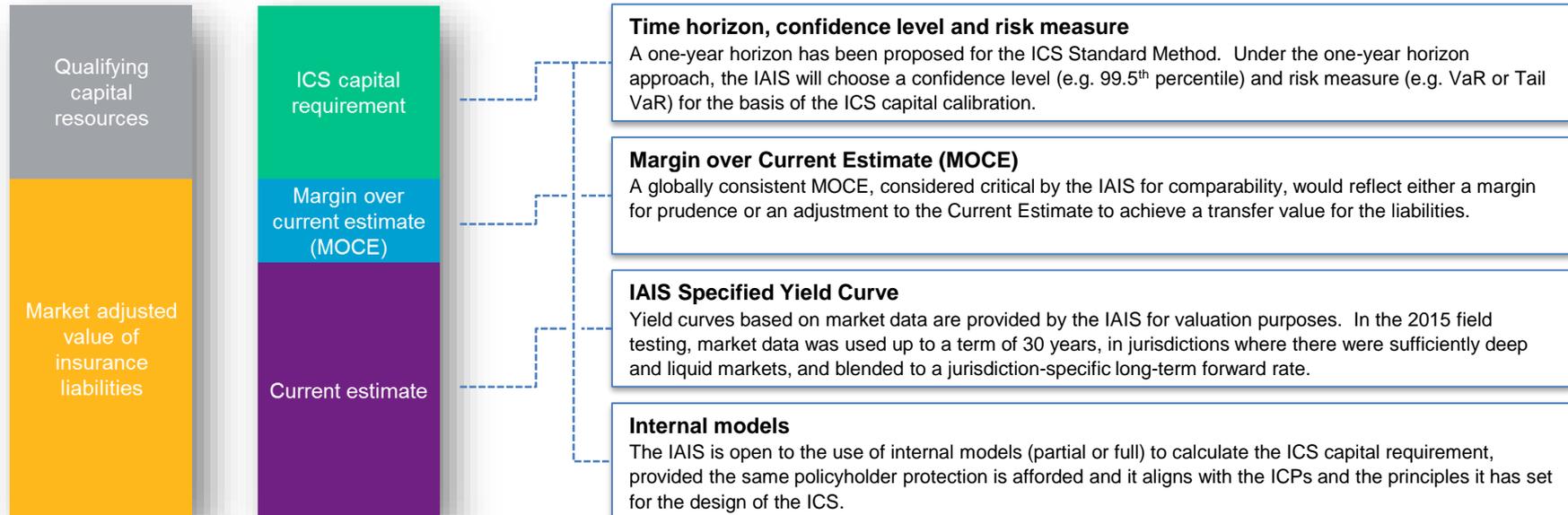
ComFrame
and ICS



The ICS is a key part of ComFrame and is an unprecedented global standard

ICS

Market Adjusted Valuation



Designing a one size fits all regime is not easy, as we have seen before

Capital

Solvency II



“The best laid plans o’ mice an’ men (gang aft a-gley)”

- Robert Burns

Should Australian insurers be concerned?

Conclusions

In the Line of Fire



- Direct impacts



- Knock-on effects

Hot Topics



- Valuation



- Equivalence

Burning Desires



- Flexibility



- Time

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