Insurance Capital Review Seminars

Life Insurance

September 2010

Hosted by

Institute of Actuaries of Australia

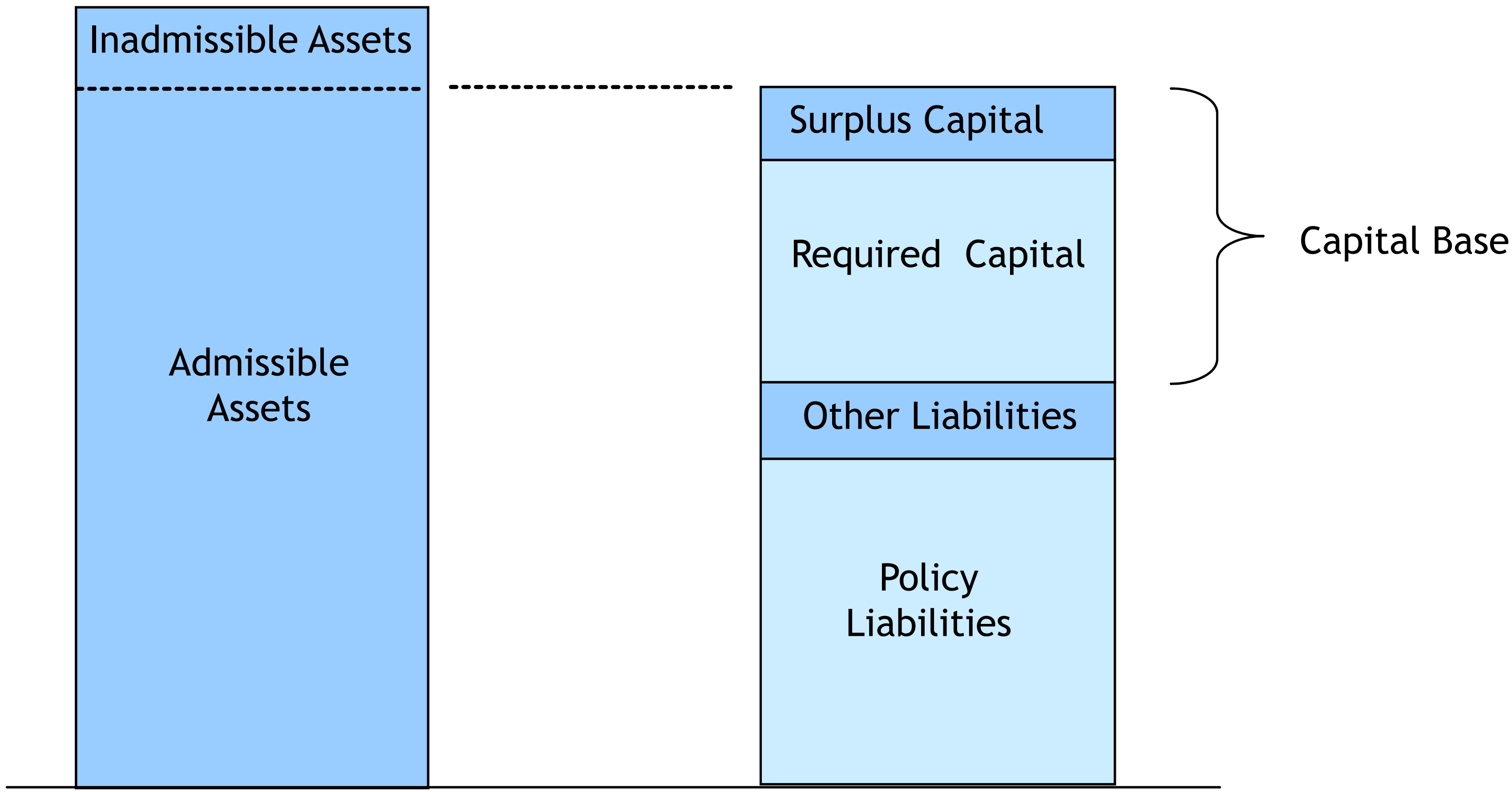
Agenda

- Timeline
- Summary of APRA proposals
- Industry responses to the Discussion Paper

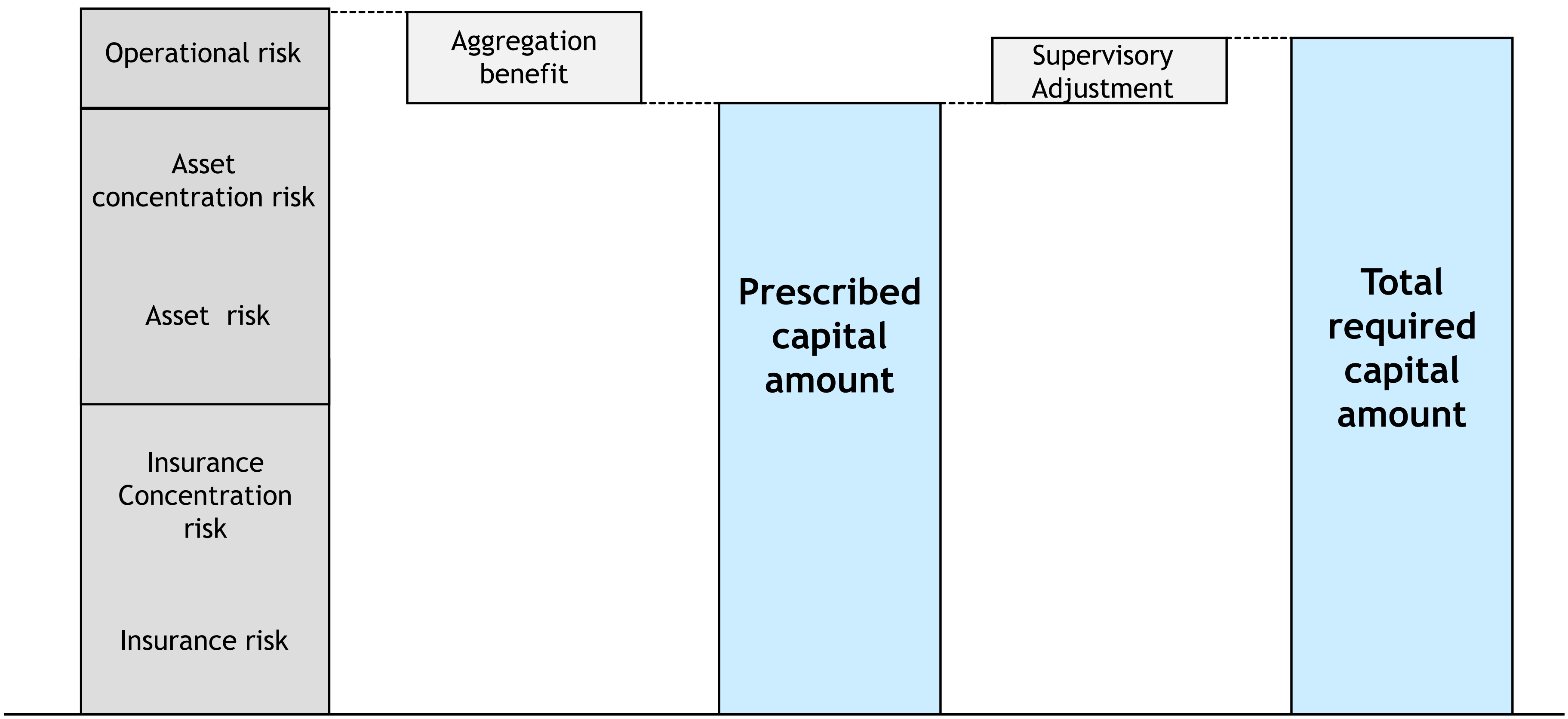
Timeline

• Nov 2009	Informal industry consultation
• May 2010	First discussion paper issued
• Jul 2010	First two technical papers issued
• Aug 2010	QIS begins
• Aug 2010	First discussion paper comments due
• Sept 2010	QIS training sessions
• Oct 2010	QIS and tech paper comments by 29 Oct
• Dec 2010	Draft standards and response paper
• 2011	Final standards and reporting forms
• 2012	Implementation

Proposed capital concepts



Components of required capital



Capital Base

Capital base = Admissible assets - adjusted liabilities

- Adjusted policy liabilities = max(RFBEL, BETV)
- Minimum applied at APRA product group level
- Include future bonuses for par business
- Risk free discount rate derived from bond yields

- Inadmissible assets include:
  - Deferred tax assets net of deferred tax liabilities
  - Intangible assets
  - Excess over NTA plus prudential capital for subs
  - Alignment to fair value

Insurance Risk Capital Charge

- Stressed liability (with minimum of stressed termination value) less adjusted liability used in determining the capital base
- Stressed margins for expenses, lapses, longevity, pandemic risk are specified by APRA
- Other margins are determined by the AA
- Margins for mortality, morbidity include event and random stresses (12 months only) & future stresses
- Restrictions on repricing assumptions
- Correlations are specified by APRA

Asset risk capital charge

- 8 separate asset risk modules:
  - real interest rates
  - expected inflation
  - currency
  - volatility
  - equity
  - property
  - credit spreads
  - default
- Aggregation of capital using a correlation matrix
- Stress tests applied to the whole balance sheet

Asset concentration risk capital charge

- Similar to existing standards
- Included in required capital
  – not included with inadmissible assets
- Changes to:
  - Limits applying to specialist insurers
  - Some mortgage assets
  - Assets secured by third party or collateralised

Operational risk capital charge

$$ORCC = \max\{3\% \times (GP + |\Delta|),\ 0.25\% \times (L + |\Delta|)\}$$

Where:

- GP = Annual non-I/L premium income (gross of reinsurance)
- L = Adjusted policy liabilities
- $|\Delta|$ = Absolute value of the annual change in the relevant quantity (from previous year to current year) for changes which exceed ±10%.

Supervisory review and ICAAP

- A supervisory adjustment may be added to required capital
- Any supervisory adjustment is non-disclosable
- Insurers must have a process to assess and manage capital (ICAAP)
- The ICAAP requirements will build on current requirements

Responses to discussion paper

16 responses – key issues:

- Supervisory adjustment
- CTV minimum
- Discount rates
- Deferred tax assets
- Operational risk
- Complexity
- Capital requirements are increasing!