



Insurance Capital Review

Seminar

Hosted by:

- Institute of Actuaries of Australia
- Insurance Council of Australia
- Financial Services Council

Sydney - 9 June 2011

Objectives of the seminar



To:

- Help you better understand our thinking
- Give you insight into the reasons for our decisions
- Provide you with an opportunity to ask questions
- Help you prepare high quality submissions

- **This session**
 - major themes from consultation
 - process & timetable
- **Concurrent sessions (after morning tea)**
 - industry specific detail

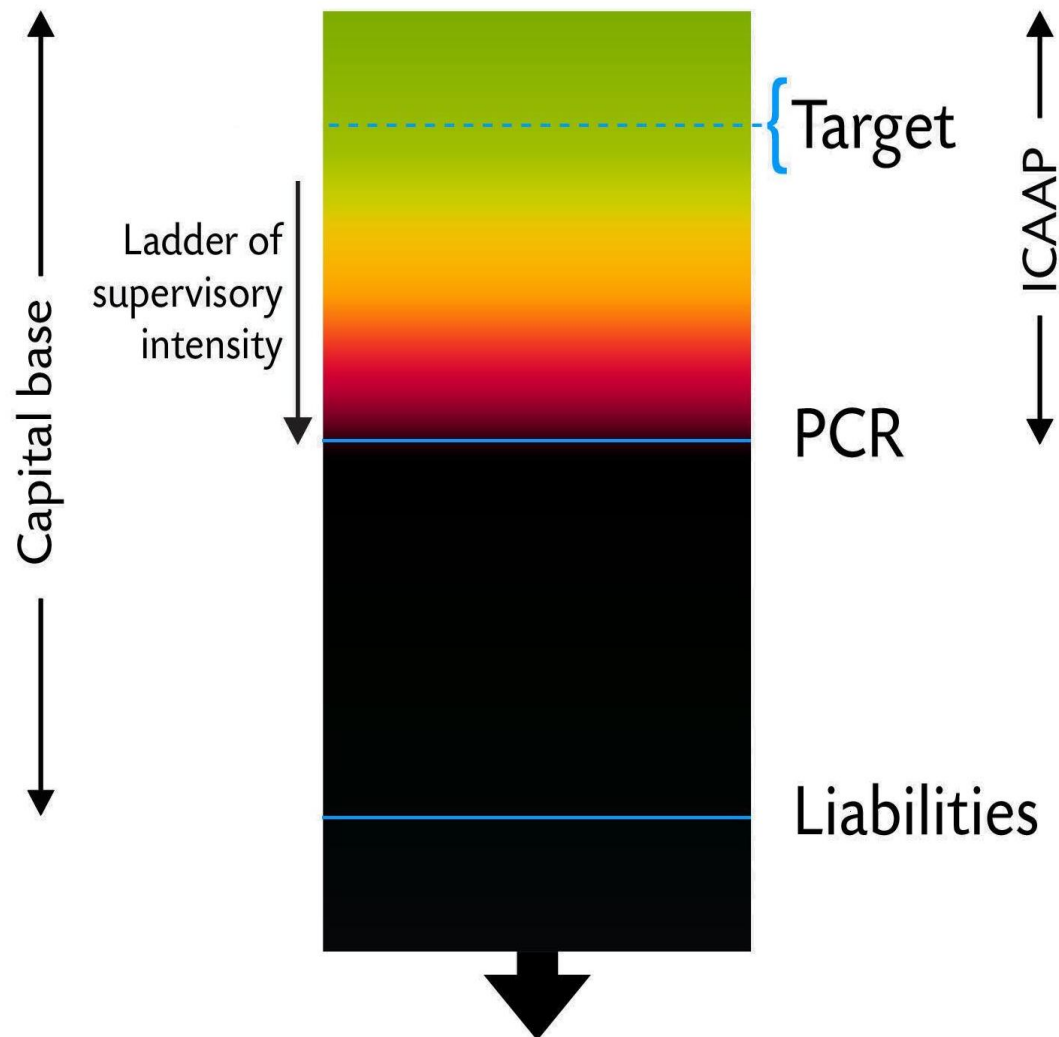
- **Began early 2009**
- **Objectives:**
 - improve risk sensitivity
 - where appropriate, improve alignment across industries
- **Proposals released - May to Sept 2010**
- **Response and refinements - March 2011**

Consultation - major themes



- **Capital above Pillar 1**
 - **Pillar 2 supervisory adjustment**
 - **target capital**
 - **ICAAP**
- **Pillar 1**
 - **complexity**
 - **pro-cyclicality**
 - **conservatism**
- **Transition arrangements**

PCR and ICAAP





Pillar 1 appropriate for “normal”, going concern insurer which:

- is well-managed
- has sound governance
- has robust and effective risk management
- has a satisfactory ICAAP

Materially below → Pillar 2 ?

e.g.

- Risks not adequately covered by Pillar 1 (e.g. contagion risk)
- High growth plans
- Changed strategy
- Unusually risky business model

→ Pillar 2 ?

Ultimately, is largely in an insurer's hands

Other points:

- Based on full range of APRA supervision activities
- Involve dialogue
- Will be transparent - reasons etc
- Possible opportunity to correct
- Clear what needs to be done
- Subject to specific governance within APRA

- ICAAP - *process* and *outcome*
- The ICAAP includes:
 - Board and management oversight
 - Risk assessment in context of appetite
 - Target capital
 - Managing capital around the target; triggers
 - Monitoring, reporting and review
- Must be supported by analysis and understanding
 - Large companies - more sophisticated
 - Small companies - simpler



- Distinct from FCR
- Periodic review
- Continuous application
- Report to APRA
- Who?

Board and management responsible for ICAAP and capital



- Consultation feedback
 - risk-sensitivity enhanced...
 - but the complexity too great
- Response
 - APRA is seeking a balance
 - made many simplifications
 - some complexity is appropriate



- **Consultation feedback**
 - some capital charges increase in stressed circumstances
- **Response**
 - agree that some proposals potentially pro-cyclical
 - addressed to the extent possible



- **Consultation feedback**
 - level of capital would increase materially
 - excessive layers of conservatism
- **Response**
 - overall increase higher than intended
 - significantly refined many of the risk charges
 - took into account expected ‘behavioural changes’
 - greater risk-sensitivity means a range of individual outcomes

Transition arrangements



- **Proposals affect insurers differently**
- **APRA open to transition arrangements**
- **Most likely on case-by-case basis**
- **Further detail will be provided**

Process and Timetable



- **31 Jul 2011** **QIS2 and response paper submissions due**
- **30 Oct 2011** **Second response paper and draft prudential standards**
- **31 Jan 2012** **Submissions on response paper & standards**
- **April 2012** **Final prudential standards**
- **May 2012** **Draft reporting standards**
- **Aug 2012** **Submissions on draft reporting standards**
- **Oct 2012** **Final reporting standards**
- **1 Jan 2013** **New standards effective**
- **1 Jan 2013** **First reporting period under new standards**
to 31 Mar 2013

APRA has:

- **considered feedback from consultation**
- **revised our proposals in response**
- **clarified our rationale and intent**

We are now seeking:

- **further active and constructive engagement**
- **QIS2 responses**



Questions?