



LIWMPC Risk Margin Taskforce

2016 Survey

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Introduction

- This presentation summarises the results of the 2016 survey of life insurance stress margins for the purposes of determining regulatory capital requirements.
- The survey was performed in June 2016 with 20 companies participating.
- It is intended that this survey will be conducted annually.
- This presentation summarises the results of the 2016 survey of life insurance stress margins for the purposes of determining regulatory capital requirements.

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Survey Approach

- A range of questions were sent to insurers and responses were provided via email.
- Interpretation of the results:
 - We have not provided reasons or sought to understand why risk margins differ between companies.
 - We sought clarification from some, but not all, companies. In some cases, the results changed upon clarification. Please use care when interpreting results.
 - A total of 20 companies responded to the survey.
 - The 20 companies included in the survey are listed on page 5.
 - Where a comparison of current and prior year stress margins is provided, results are presented for only those companies which participated in the current year survey. A number of companies have also restated their 2015 results. This has led to some variations from what was presented in the 2015 survey results.

Survey Participants

AIA

AMP

BT

Clearview

CommInsure

Hallmark

Hannover Re

HCF Life

Gen Re

Metlife

MLC

Munich Re

OnePath

Pacific Life Re

Scor Re

St. Andrews

Suncorp

Swiss Re

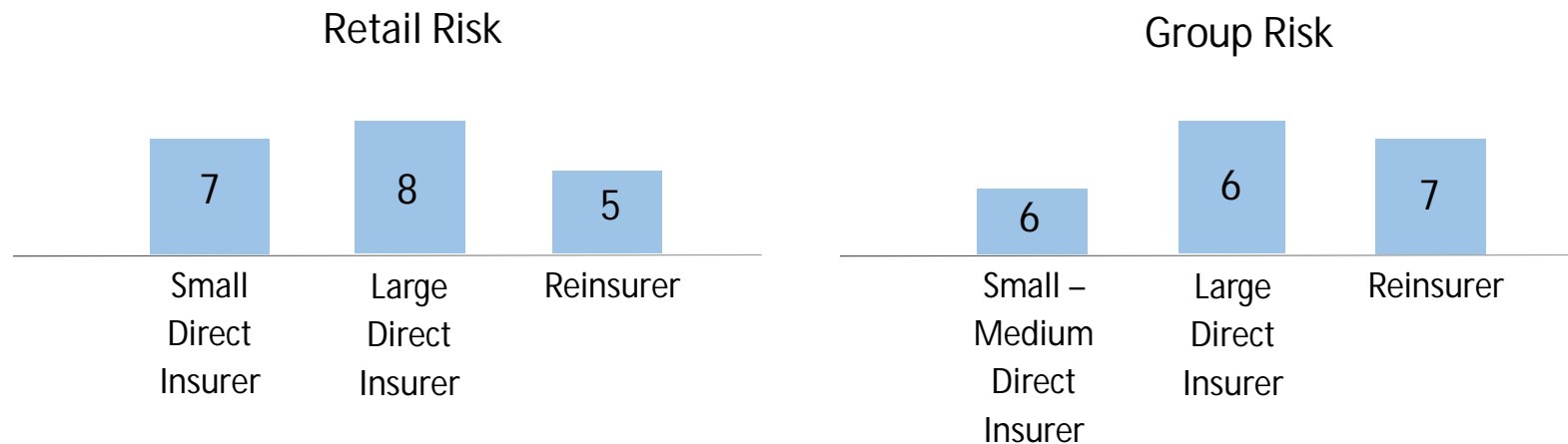
TAL

Zurich

Survey Categorisation

- Results are presented for small-medium direct insurers, large direct insurers and reinsurers.
- Large direct insurers are defined as:
 - For retail risk, those with greater than \$500m gross annual premium in-force at 31 March 2016.
 - For group risk, those with greater than \$500m gross annual premium in-force at 31 March 2016.

No of Participants

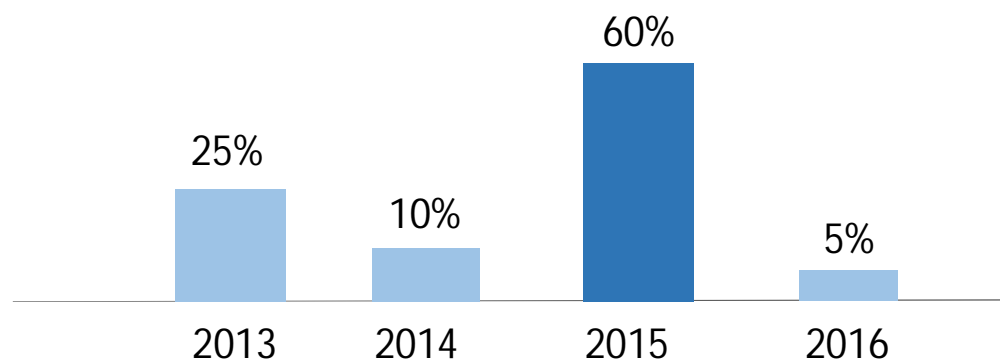




Survey questionnaire and summarised answers

Question 2

Q2A (i): When did you last change any of your insurance stress margins?



Q2A (ii) If you have recently changed any of your stress margins, which margins changed and what was the reason for the change?

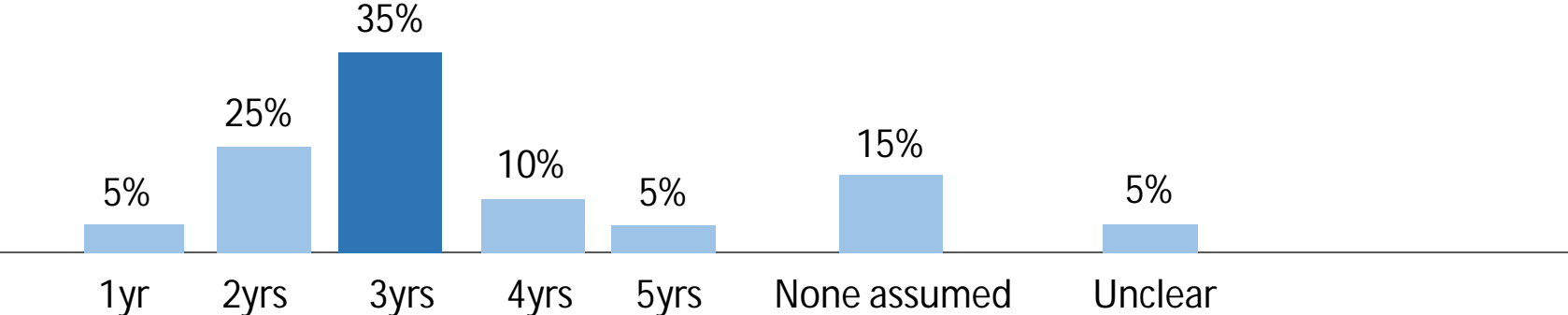
Key reasons cited for changes to insurance stress margins included revision following the annual review or experience investigation exercises. A number of insurers cited changes following review of the 2015 Risk Margins Taskforce survey or Risk Margins Methodology Taskforce information note.

Q2A (iii) Do you intend to change your stress margins to allow for uncertainty relating to trauma definitions and declined claims?

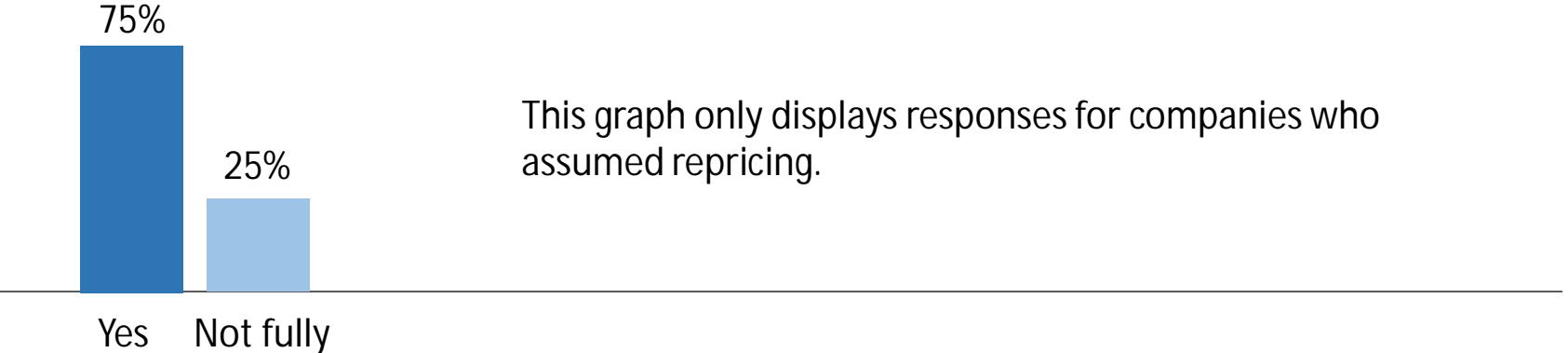
Most insurers do not intend to change stress margins to allow for the uncertainty relating to trauma definitions and declined claims. Some insurers will consider this as part of their next review of risk margins.

Question 3A

Q3A (i): How many years do you assume before you reprice retail business?

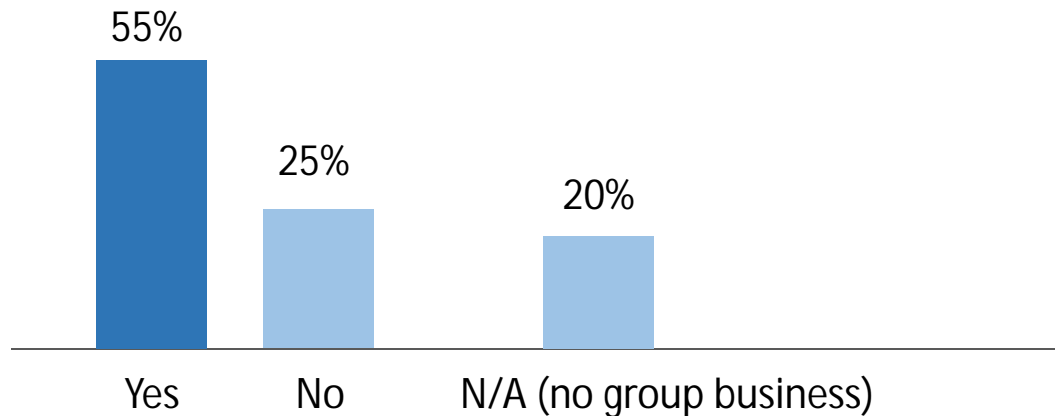


Q3A (ii): Do you assume the business is repriced to fully cover the impacts of the stresses?



Question 3B

Q3B (i) & (ii): For group business, do you assume any level of automatic rollover at the current price? If so describe.



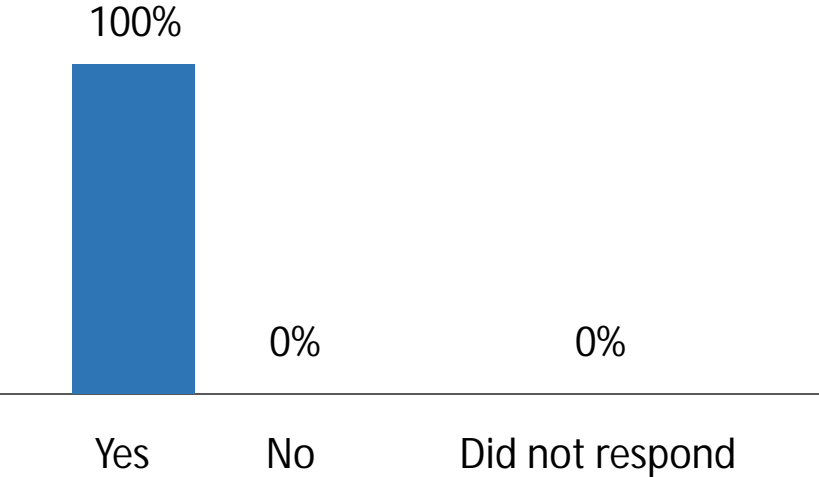
The percentage of companies assuming a level of automatic rollover at the current price has increased significantly from 29% in 2015 to 55% in 2016.

Approaches for rolling over included:

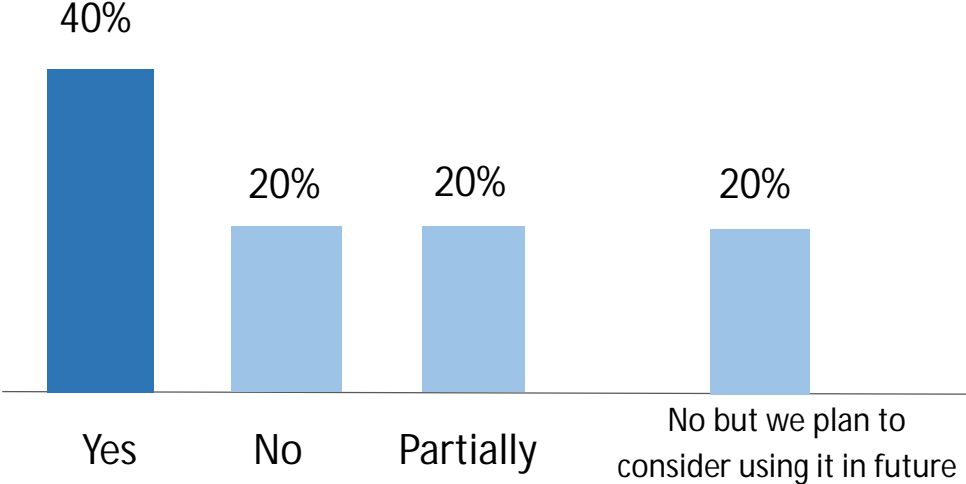
- Assume full rollover at current price due to low materiality of the group portfolio.
- Determined on a scheme-by-scheme basis.
- Include an allowance for the probability of retention at the current premium rate.
- Include an allowance for potential premium rate changes.

Question 3C

Q3C (i): Are you aware of the work of the Risk Margins Methodology Taskforce?



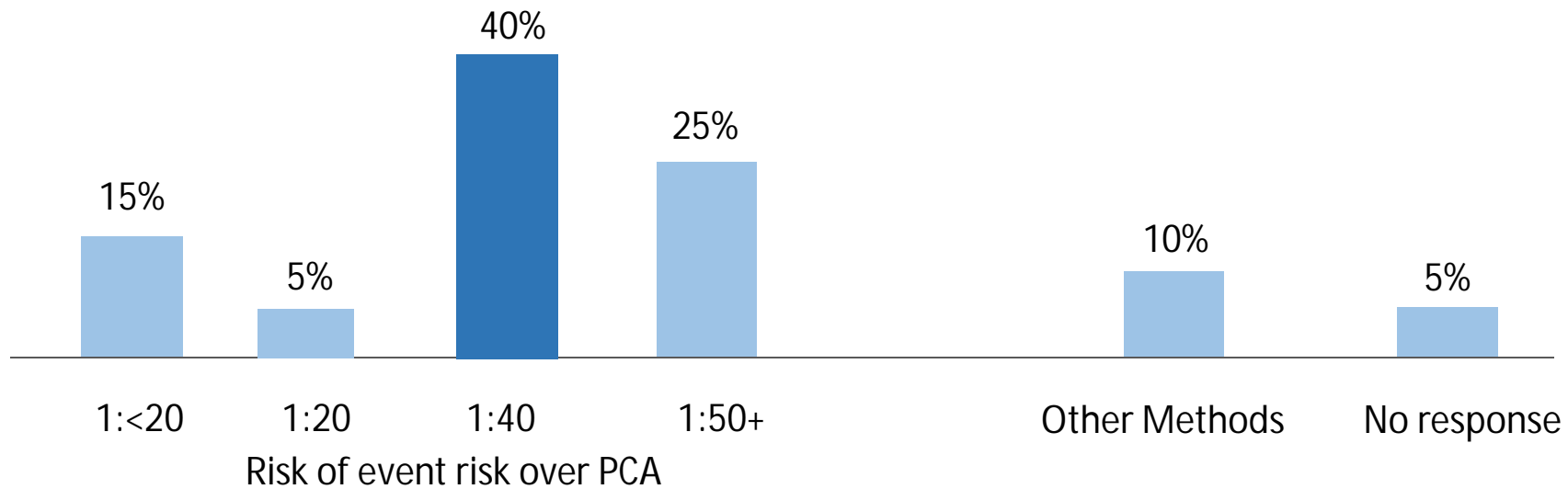
Q3C (ii) If so have you incorporated their suggested approach into your methodology for setting margins?



The percentage of companies incorporating the suggested approach has increased from 29% in 2015 to 40% in 2016.

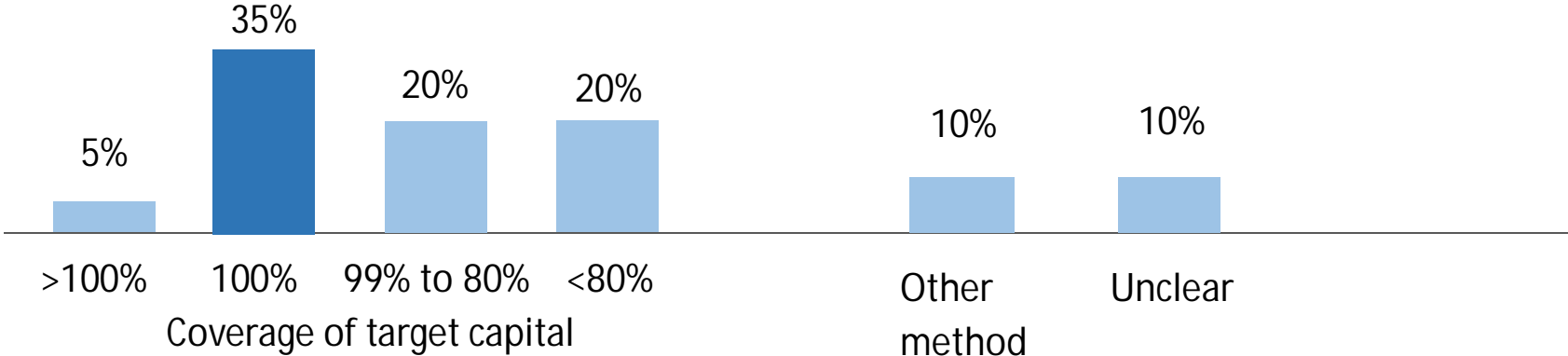
Question 4A

Q4A (i): At what level is your target capital set? (e.g. 1 in 40 year event risk over PCA etc)

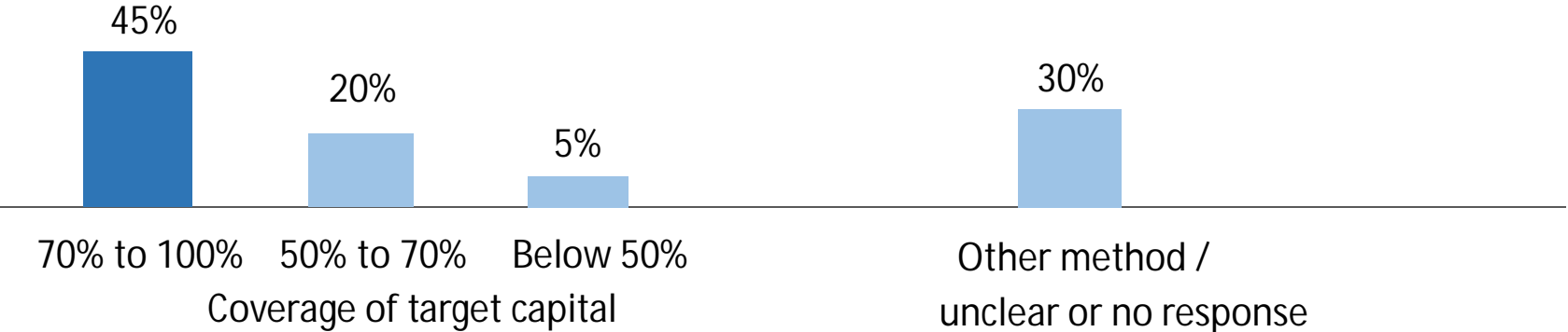


Question 4B

Q4B (i): At what level of buffer capital is your first action under ICAAP?

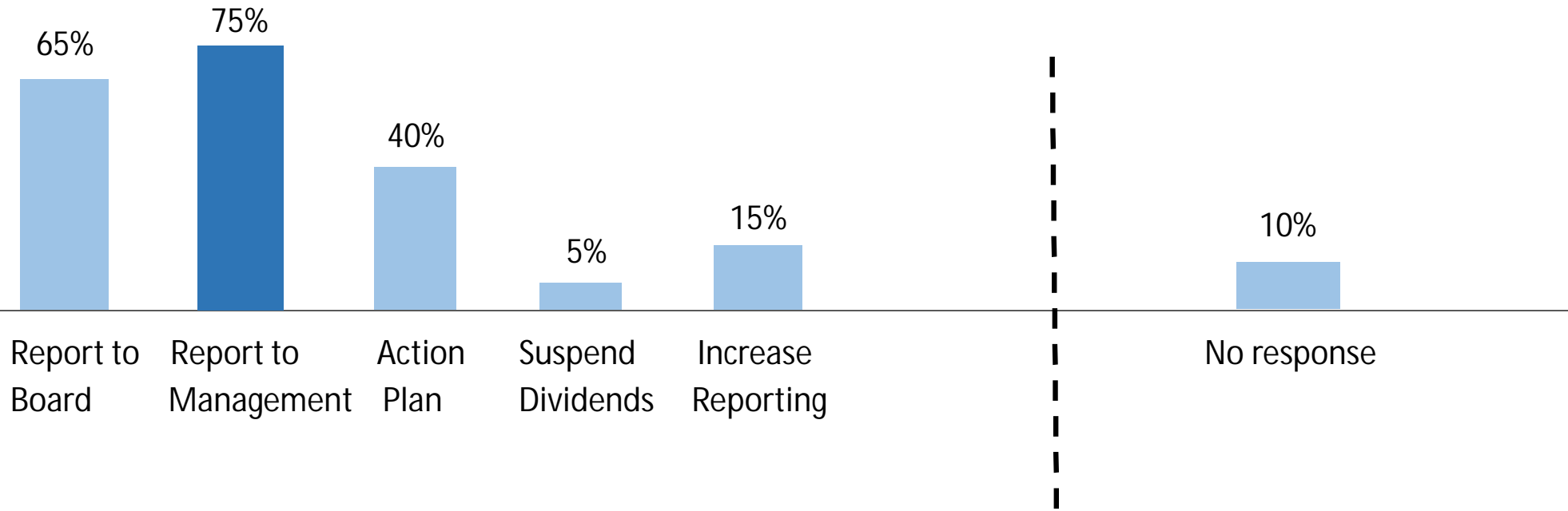


Q4B (iii): At what level off buffer capital is APRA informed under your ICAAP?



Question 4B

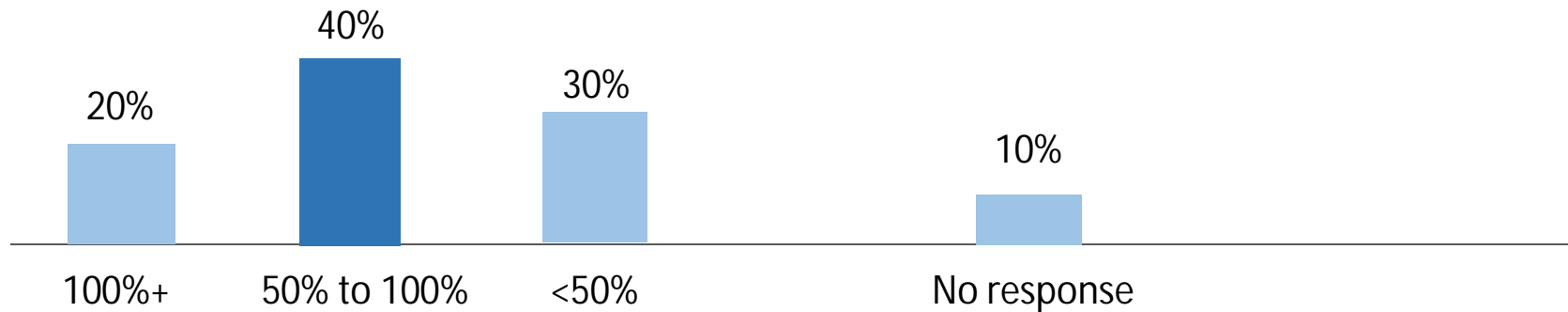
Q4B (ii): What is that first action under ICAAP



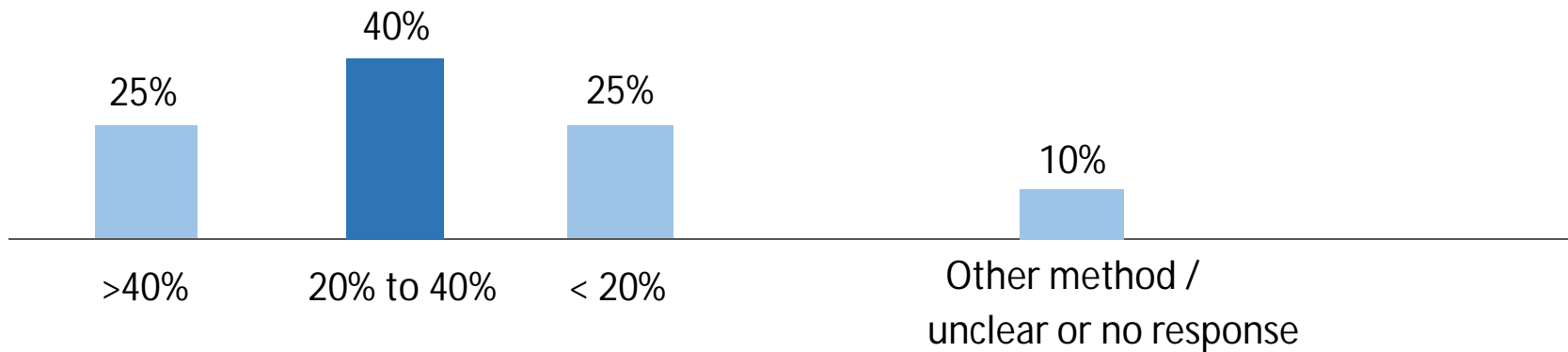
Most respondents have specified multiple first actions under the ICAAP. The most common first action is to notify senior management.

Question 4C

Q4C (i): For the company as a whole, what is your buffer capital as a proportion of your PCA?

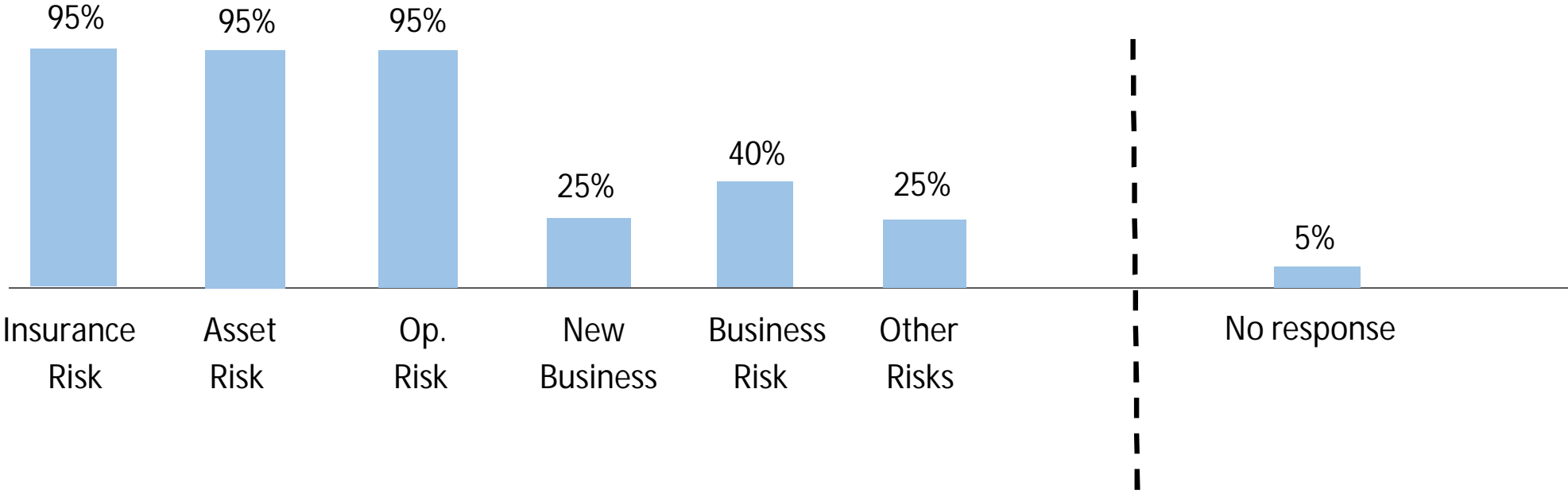


Q4C (ii): For the company as a whole, what is your buffer capital as a proportion of the (PCA + capital base adjustments)?



Question 4D

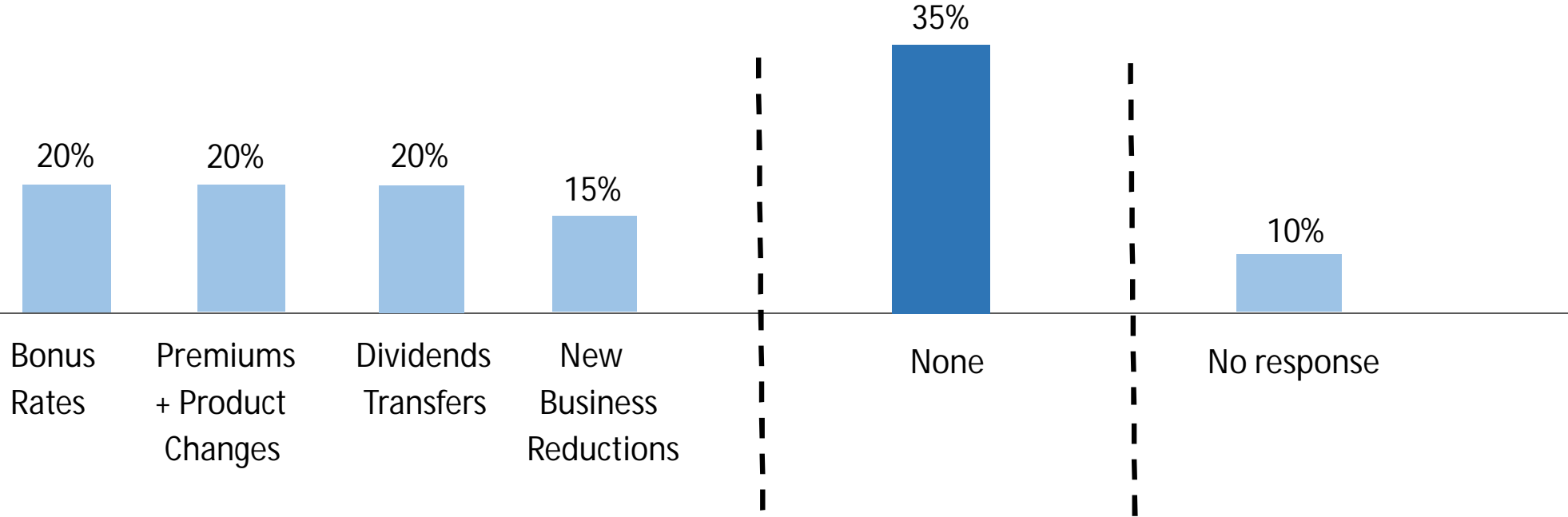
Q4D: What risks are considered when setting your target capital?



All companies which responded consider insurance, asset and operational risks when setting target capital. Some companies consider new business, strategic, expense and residual risks.

Question 4E

Q4E (i): What management actions are allowed for when setting your target surplus level?



55% of respondents allow for at least one management action when setting target capital. Allowance for multiple management actions is uncommon.

Delays in the implementation of management actions range from no delay (immediate implementation) to 3 years. The most common delay periods factored in are 3 months and 2 years.



Survey Results

Introduction

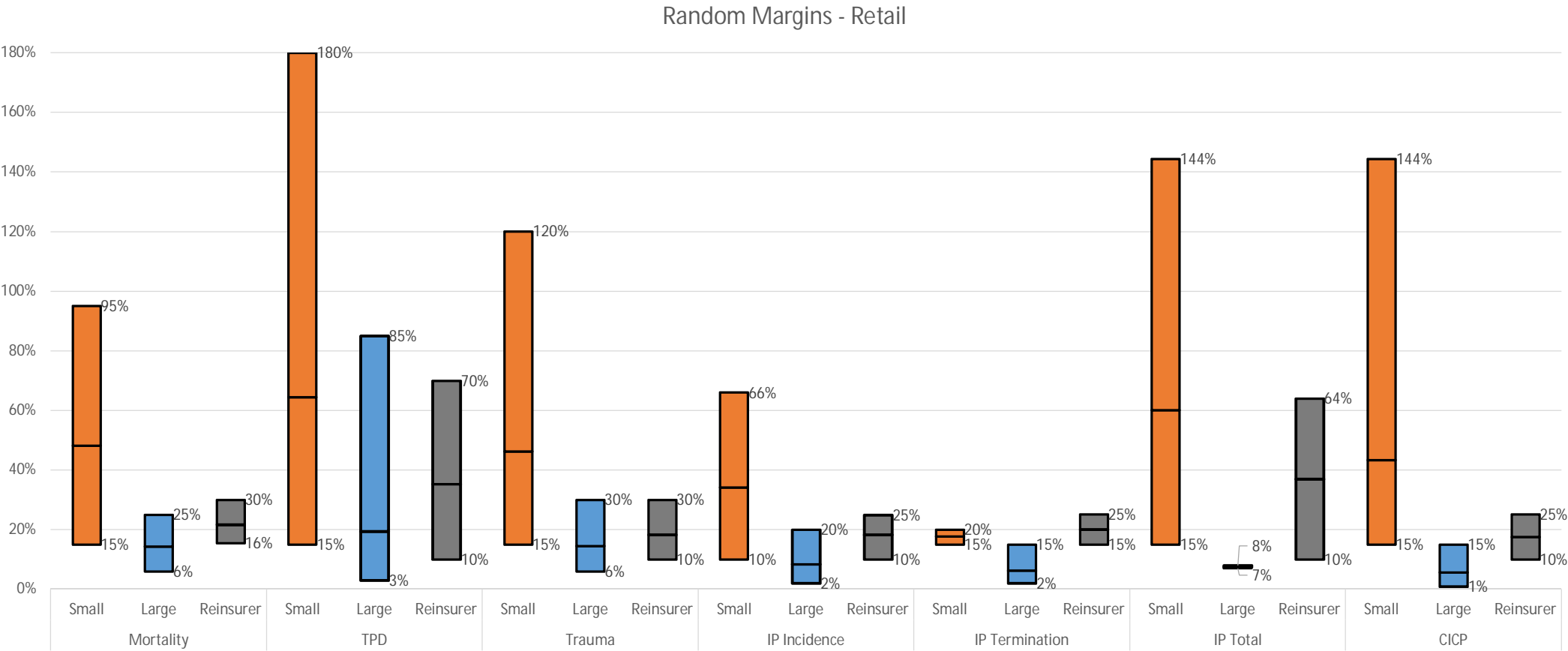
Range of stress margins:

- The range is similar to the last survey (conducted June 2015).
- In some cases where risk margins are very high, this reflects that the margin is not material to the capital position of the company and therefore a very approximate approach has been used.

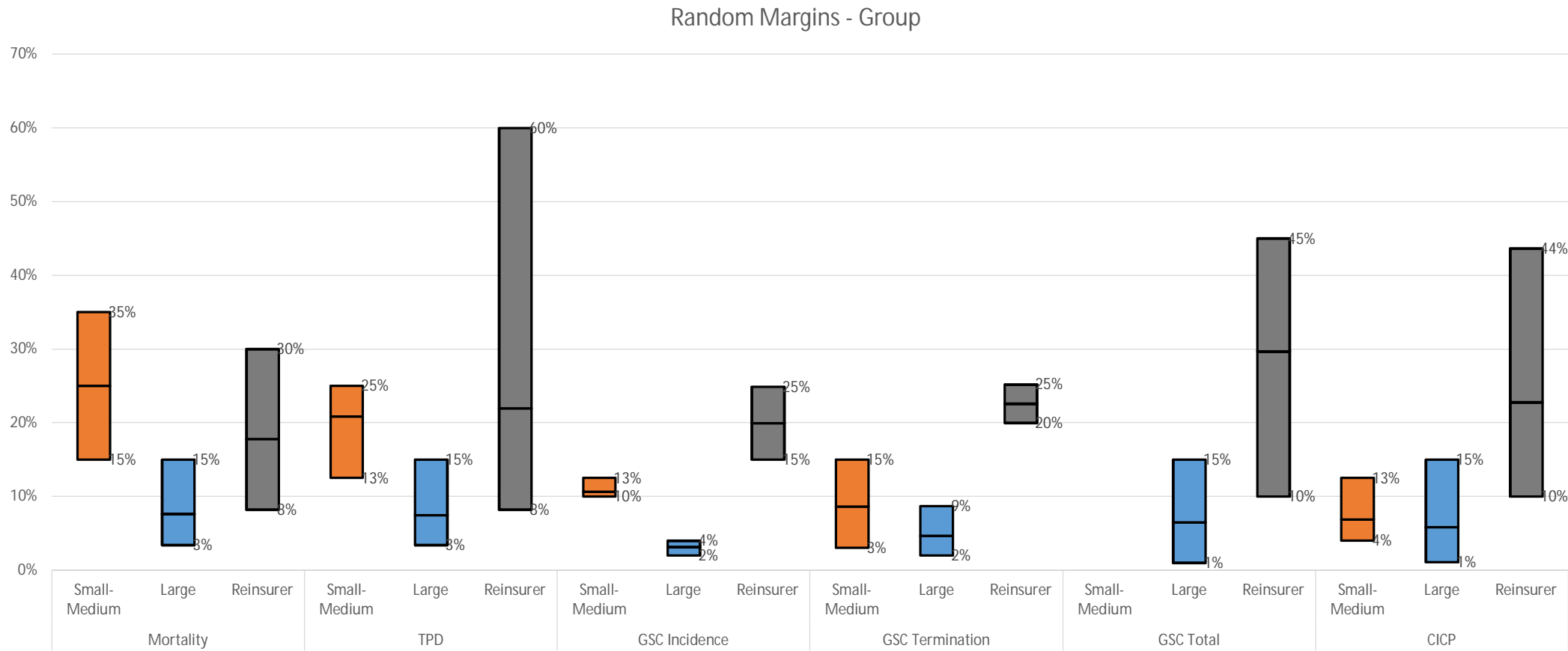
Interpretation of graphs:

- The bars on each chart indicate the average, minimum and maximum for each stress margin and type of company (small, large, reinsurer).

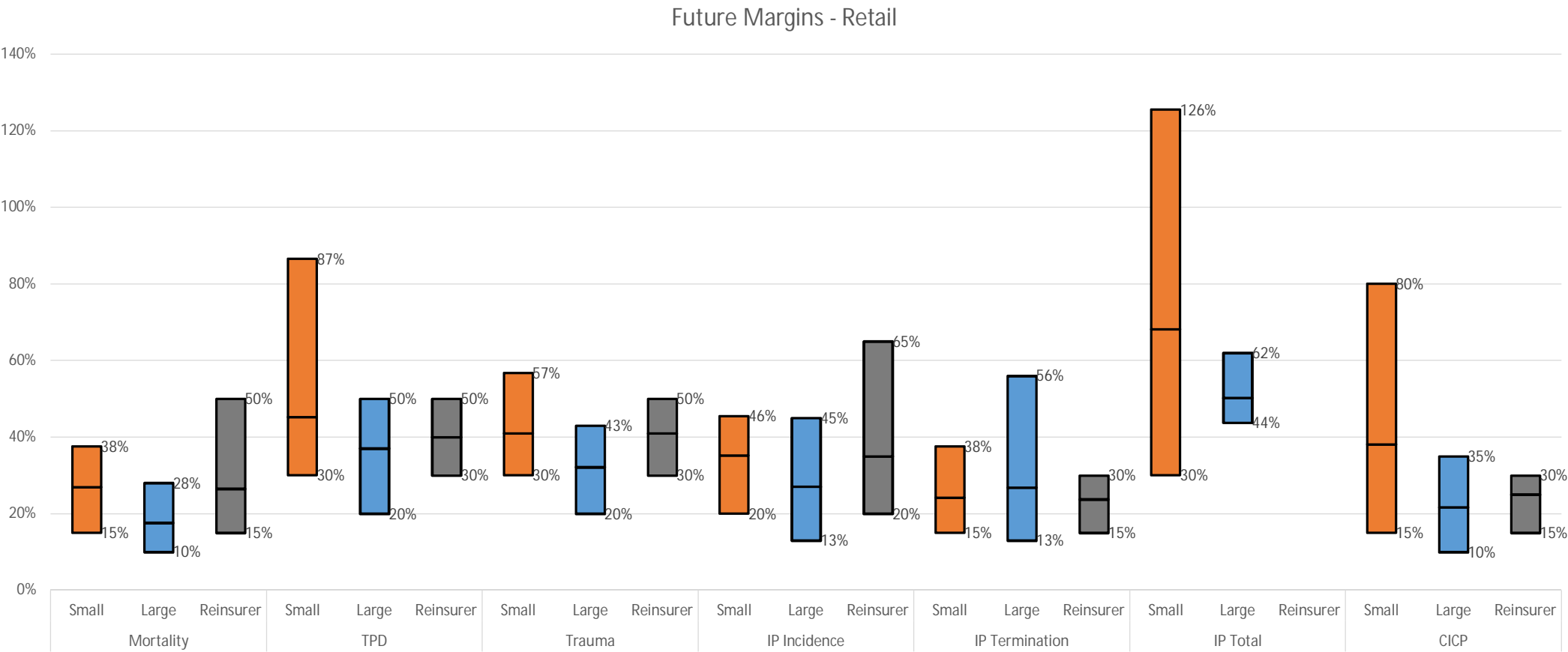
Random Stress Margins (Retail)



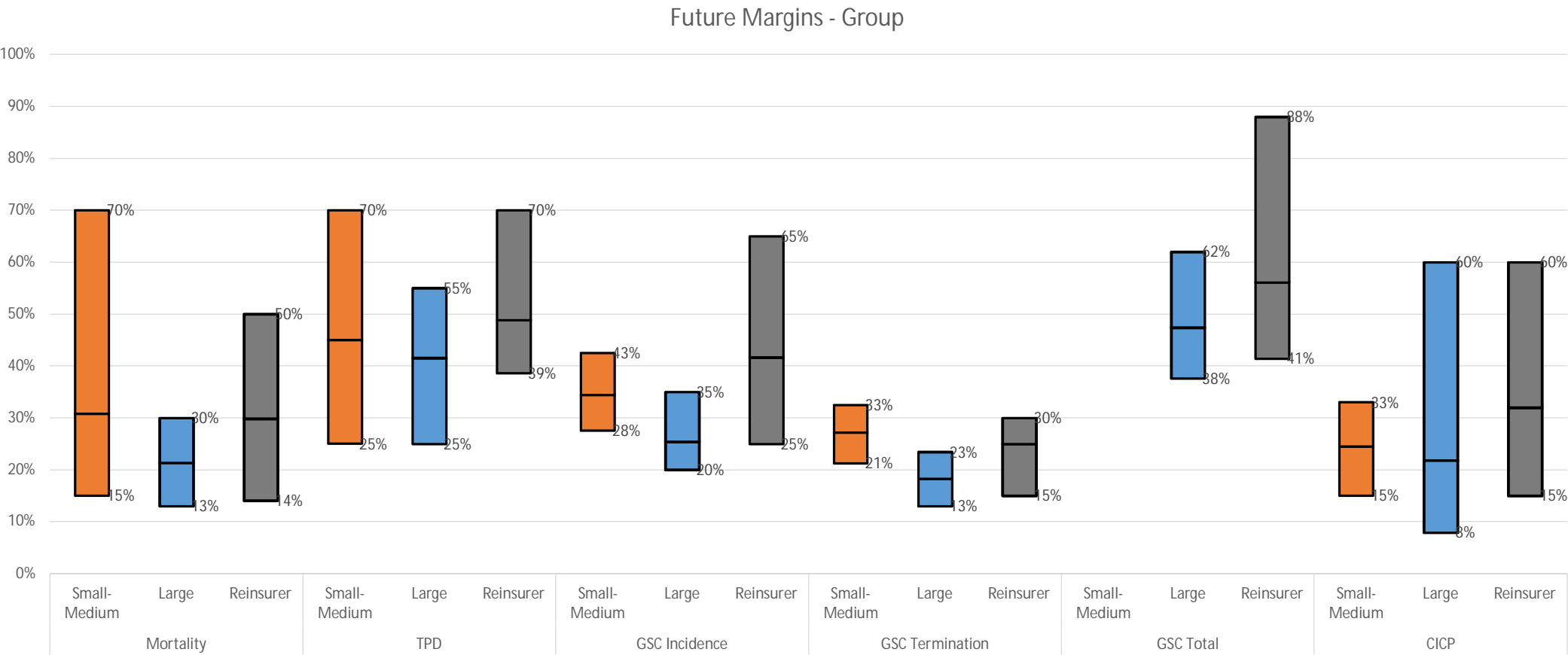
Random Stress Margins (Group)



Future Stress Margins (Retail)

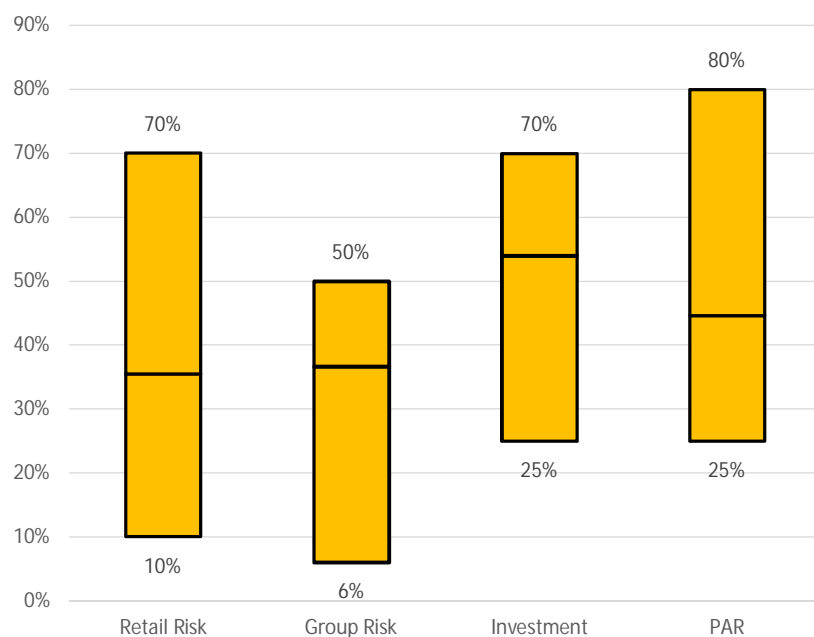


Future Stress Margins (Group)

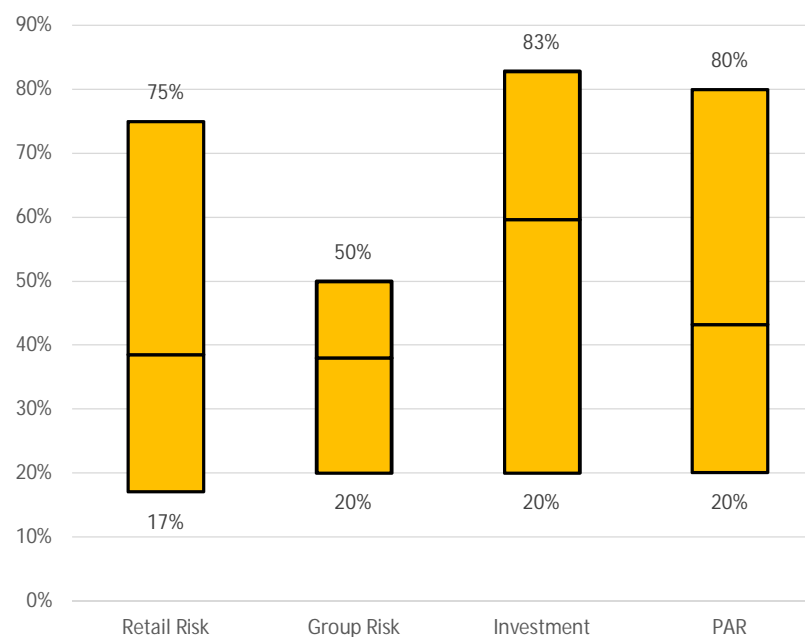


Lapse Stress Margins

Lapse Margins - 2016



Lapse Margins - 2015

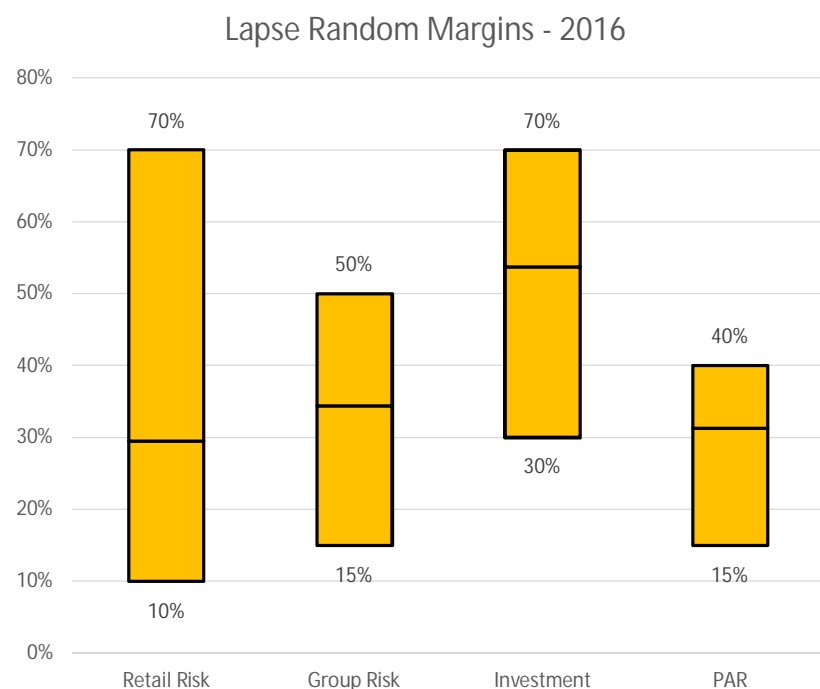


The margins shown here include:

- Companies that model random and future lapse margins together, and
- Just the future stress margins of companies that model random and future lapse stresses separately.

Lapse Random Stress Margins

The risk margin survey added a new question on random lapse stresses.



The number of companies that supplied explicit random lapse margins (by class of business) are as follows:

- Retail risk: 8 companies
- Group risk: 5 companies
- Investment: 3 companies
- Participating: 3 companies

Four companies stated that random and future lapse margins are modelled together.

The random lapse stress margins were generally the same or lower than the future lapse stress margins.

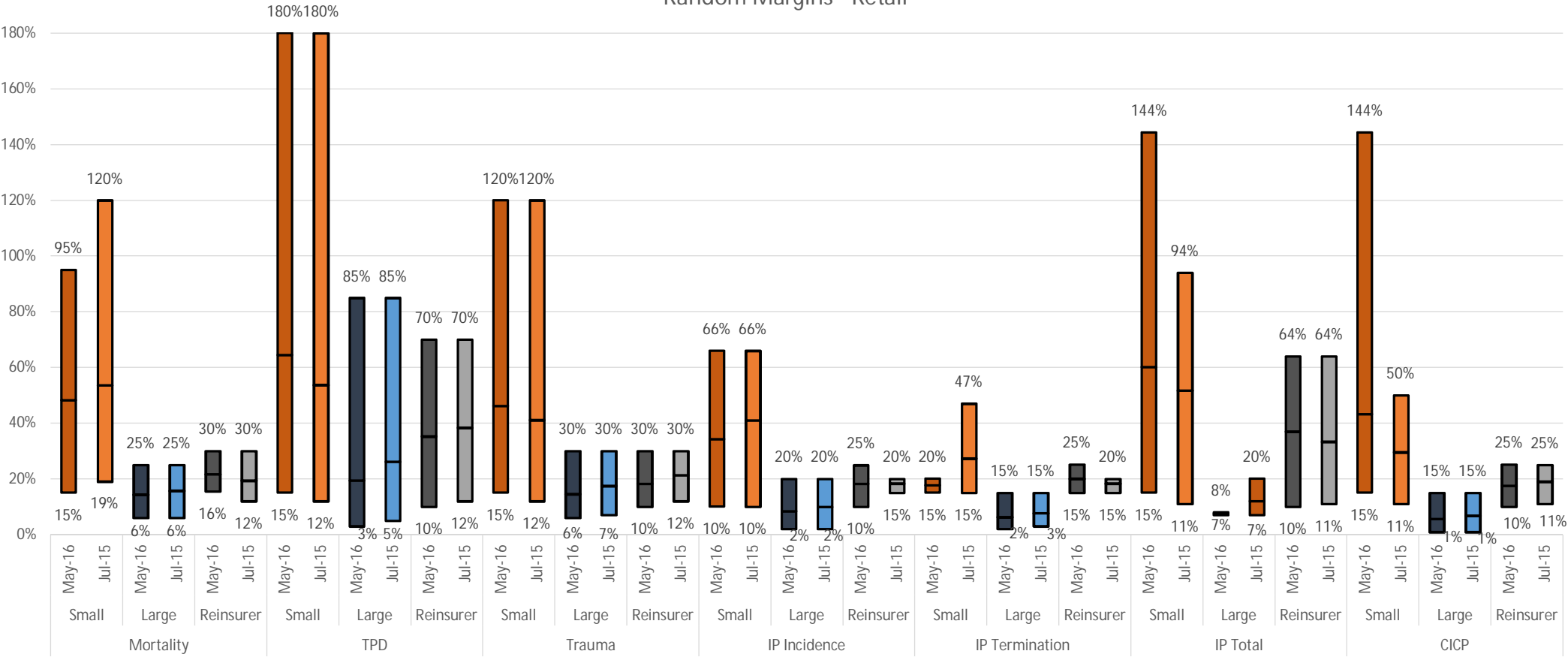


Appendices

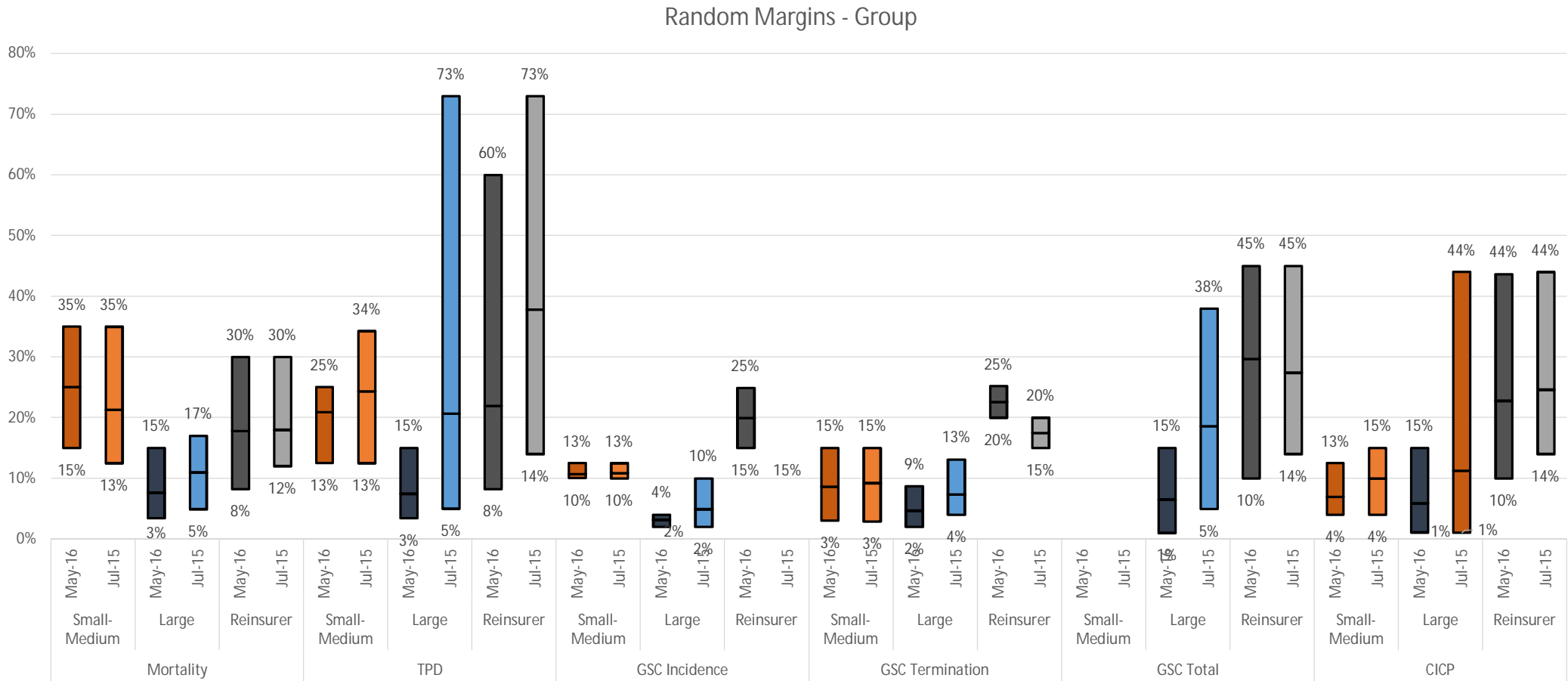
Detailed charts comparing the latest survey results against previous year's survey results

Random Stress Margins (Retail)

Random Margins - Retail

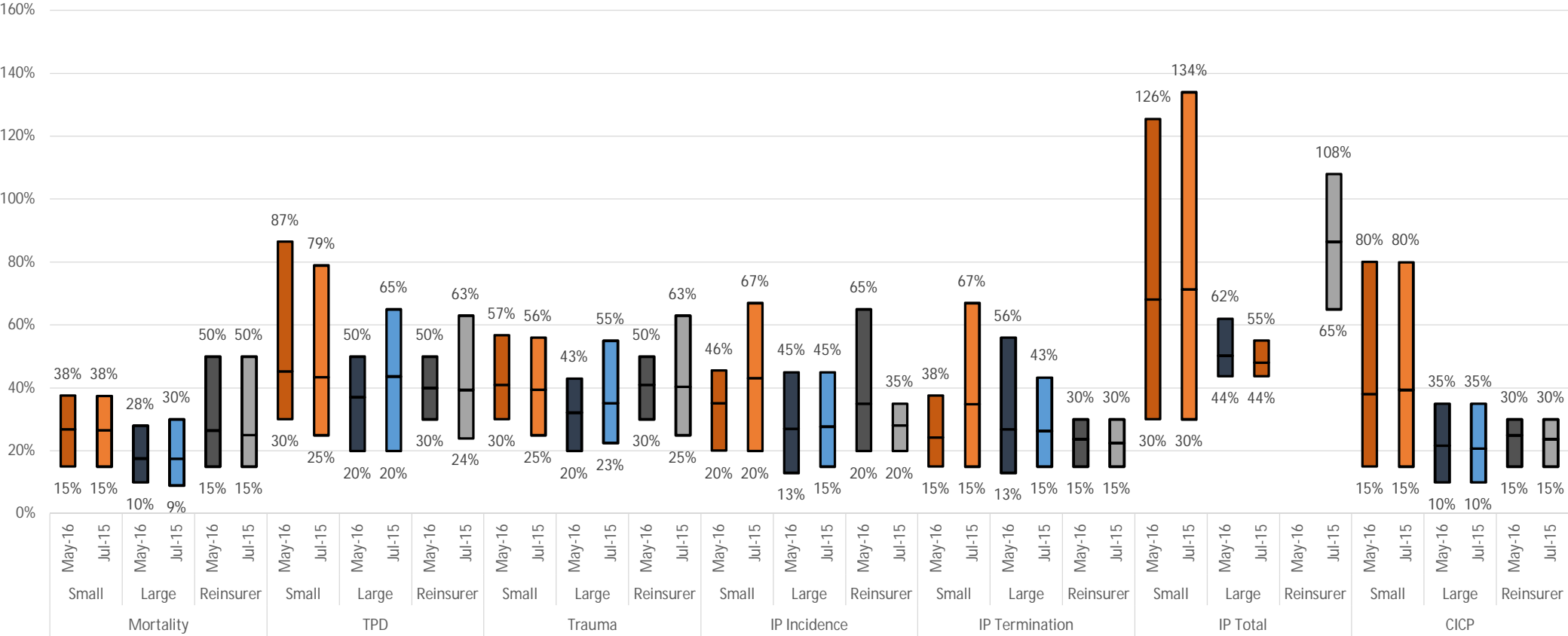


Random Stress Margins (Group)



Future Stress Margins (Retail)

Future Margins - Retail



Future Stress Margins (Group)

Future Margins - Group

