Insurance Council of Australia
Regulatory Update

Views from the Australian Prudential Regulation Authority

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Agenda

• Current environment & industry risks
• Insurance capital review (LAGIC)
• Risk appetite, stress testing & ICAAPs
• Reinsurance & use of catastrophe models
• Other current APRA issues
Current environment & industry risks

![Graph showing Capital trends over time]

- **MCR Ratio (RH Axis)**
- **Maximum event retention (LH Axis)**
- **Capital Surplus/Deficiency (LH Axis)**
- **MER/Capital surplus (RH Axis)**

*Note: The graph illustrates the fluctuation of capital over the years from 31/12/2006 to 31/12/2011.*
Current environment & industry risks

- Key areas of current APRA focus include:
  - reinsurance counterparty & placement risks
  - use of catastrophe models
  - adequacy of pricing & reserving processes
Insurance capital review (LAGIC)

- Dec 2011 - Response paper & 14 draft standards released
- Prudential Standards
  - May 2012 - Final capital & draft non-capital standards released
  - September 2012 - Final non-capital standards released
- Reporting Standards
  - June 2012 - Draft reporting standards released
  - October 2012 - Final reporting standards released
- 1 January 2013 - New capital framework effective
Insurance capital review (LAGIC)

- Composition of capital
  - Proposed limits

- Insurance Concentration Risk Charge
  - Horizontal requirement

- Transition
  - Case-by-case arrangements
Risk appetite, stress testing & ICAAP

• Risk appetite statements
  - Engagement of board
  - Overarching statement
  - Use of stress testing & scenario analysis
  - Connection with operational & capital management

• Internal Capital Adequacy Assessment Process (‘ICAAP’)  
  - Primary responsibility of the Board
  - Stress & scenario testing
  - Linked to risk appetite
Reinsurance & use of models

- Reinsurance management
  - Reinsurance Arrangements Statement
  - Future stress testing

- Reinsurance modeling
  - Use of & reliance on models
  - Model uncertainty
  - Model governance
Other current APRA issues

• International developments
  - Systemic importance assessments (G-SIIIs)
  - Recovery & resolution plans

• Review of remuneration practices:
  - Remuneration Committee governance
  - Linkages with risk management
  - Staff engagement
  - KPIs - individual risk-taking, weight to risk, quality of risk management
APRA’s expectations of boards

Board

Stronger support to Management

More confidence to APRA

Lower Intensity from APRA to Board

Management to Board
Questions?