



# Insurance Council of Australia Regulatory Update

## Views from the Australian Prudential Regulation Authority

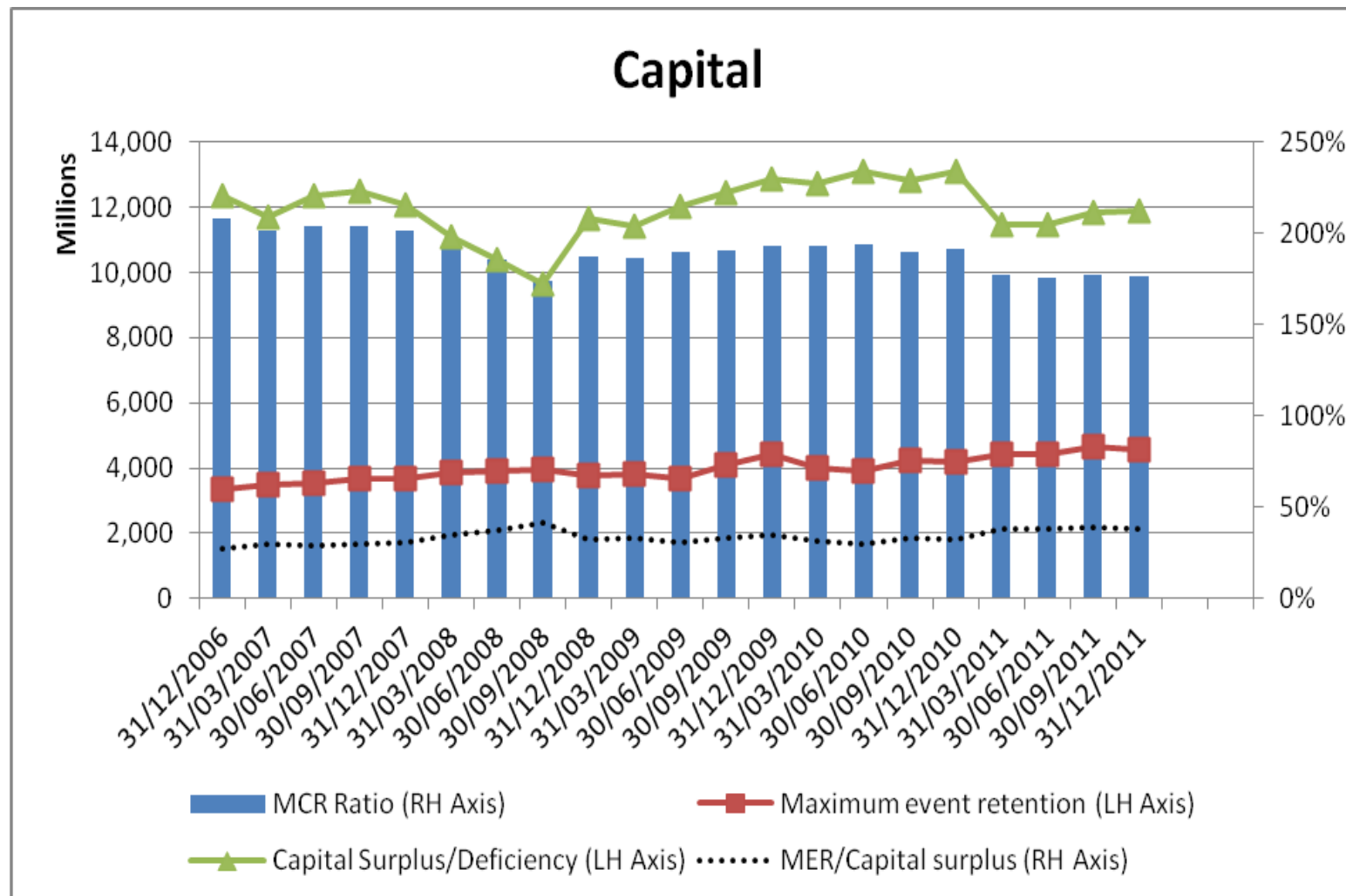
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- Current environment & industry risks
- Insurance capital review (LAGIC)
- Risk appetite, stress testing & ICAAPs
- Reinsurance & use of catastrophe models
- Other current APRA issues

# Current environment & industry risks





- 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



- **Composition of capital**
  - Proposed limits
- **Insurance Concentration Risk Charge**
  - Horizontal requirement
- **Transition**
  - Case-by-case arrangements



- 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



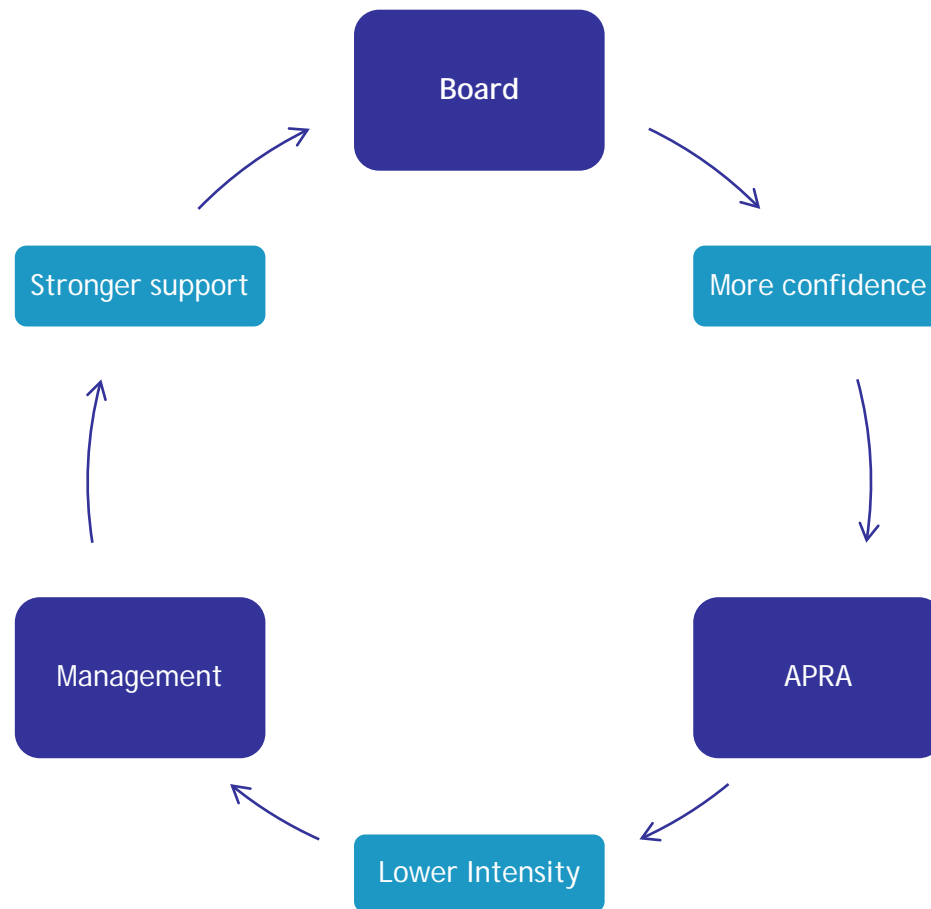
- Reinsurance management
  - Reinsurance Arrangements Statement
  - Future stress testing
- Reinsurance modeling
  - Use of & reliance on models
  - Model uncertainty
  - Model governance





- International developments
  - Systemic importance assessments (G-SIIs)
  - 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



# Questions?

