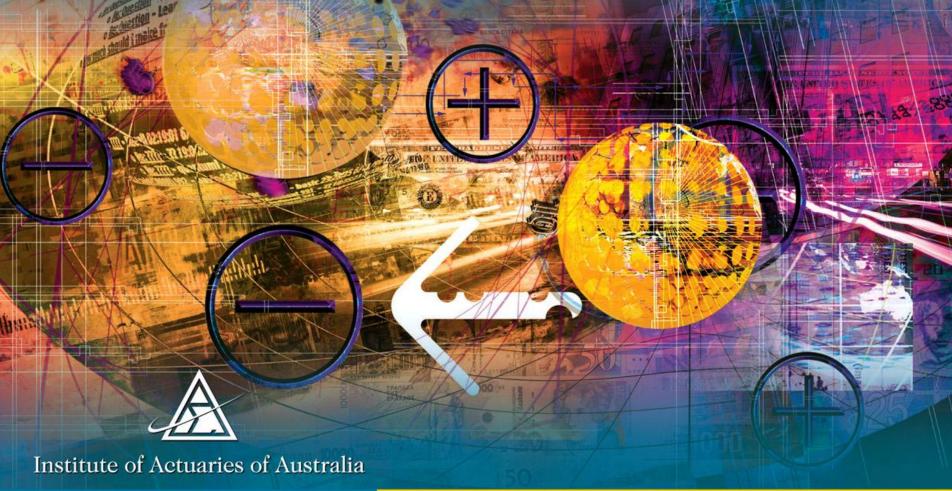
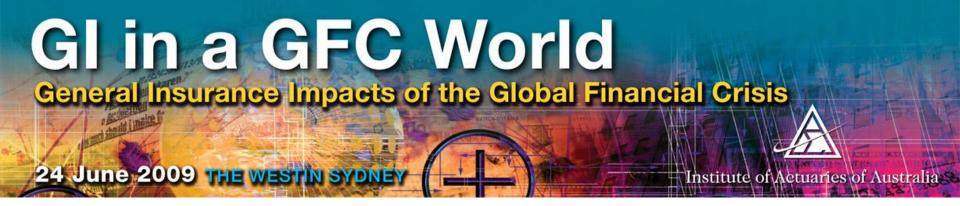
GI in a GFC World

General Insurance Impacts of the Global Financial Crisis



Wednesday, 24 June 2009

THE WESTIN SYDNEY 1 MARTIN PLACE, SYDNEY



Lessons for Risk Management Framework

Brett Ward – Group Actuary IAG Wednesday 24th June 2009



- Systemic risks
 - Asset return 'distributions' potentially require additional variability or shock scenarios
 - ➤ Dependencies with other relevant economic factors, such as unemployment, house prices, corporate insolvencies need to be revisited
 - ➤ Over reliance on rating agency rankings, not allowing for transitional probabilities to lower ratings and insolvency
- Risk models
 - ➤ Inadequate dependency and variability outcomes of contractual outcomes to economic conditions
 - ➤ Need for external shock scenarios as well as internal operational shocks
 - ➤ Incentives to understate Value at Risk (VaR), inadequate frameworks for objective assessment of VaR
 - ➤ Insufficient focus on tail of outcomes beyond the VaR



- Enterprise risk management
 - ➤ Model of setting VaR per BD or Product leads to understatement of risk accumulation.
 - ➤ Limited information around accumulation of beyond VaR risks
 - ➤ Capital allocation methods encourage a 'non contagion' culture
- Reporting and information flows
 - > Enhanced reporting regime on risks to Corporate
 - ➤ Enhanced reporting of risks and accumulation to Executive and Board
 - ➤ Greater consistency in reporting upon risk in financial statements, disclosure of VaR or other risk metrics



Risk culture

- ➤ Independent review of contracts and products, pricing and provisioning by appropriate professionals
- ➤ General improved culture that balances consideration of upside and downside risks
- ➤ Stronger control cycle principles to ensure an encompassing product development, risk assessment, pricing, monitoring, revaluing and feedback to next iteration of products
- ➤ Greater power and accountability afforded to a separately mandated risk team



Research

- ➤ Inadequate research into technical, behavioural and other aspects influencing economic outcomes
- ➤ Utilisation of outdated models, some developed in 1960s, with limited explanatory power

Regulation

- > Counter cyclical capital requirements
- ➤ Sophistication of minimum capital requirements to match contracts and products on offer
- ➤ Provisioning standards with respect to contracts/ products
- Greater geographic cohesion