

general insurance seminar

Tides of Change

12-13 November 2012
Sofitel Sydney Wentworth



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SYNOPSIS

How Opinionated Are You? Risk Management and FCRs in General Insurance

Brett Riley

Key words:

risk management, financial condition reports, actuarial opinions

Purpose of your paper:

To contribute to the development of actuarial opinions within financial condition reports on the suitability and adequacy of insurers risk management frameworks.

Synopsis:

Appointed Actuaries are improving the breadth and depth of their reviews of general insurers' risk management frameworks. This is a challenge, requiring the development of new skills and analyses in order to draw suitable conclusions.

This paper develops thinking and shares research on ways in which Appointed Actuaries can improve the quality of their risk management reviews. It will report on changes which Appointed Actuaries have made in recent months to their reviews.

It deals with practical issues such as using the work of others (e.g. internal audit), documentation and softer risk management issues (e.g. culture). It will include case studies illustrating strengths and weaknesses in risk management frameworks.

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SYNOPSIS

ACHIEVING BUSINESS ENGAGEMENT WITH RISK APPETITE – A CHOICE MODELING APPROACH

Matt Hodson, Warrick Gard, Vivian Tse

Key words:

Risk appetite, Use Test, Business, Strategy, Stakeholder management, APRA, Board

Purpose of your paper:

To demonstrate an interactive and engaging method of communicating risk appetite within an organization, including uncovering differences between senior executive and board understanding of organizational risk appetite.

Synopsis:

The concept and application of 'Risk Appetite' has achieved substantial focus from financial institutions since the global financial crisis. Some of the common challenges with risk appetite include achieving senior management and board buy-in and understanding, demonstrating a clear link to organizational strategy.

Ernst & Young has worked with a number of companies – including a number of Australian general insurers - to develop, refine, communicate or embed their risk appetites. In this paper we explore a 'Choice Modelling' approach to risk appetite, with a particular emphasis on how to use Choice Modelling to develop, refine or communicate refine risk appetite and ensure a link between risk appetite and organizational strategy.

Finally, in the presentation at the GI seminar we will interactively explore the collective personal risk appetite of the audience. This will be done using choice modelling and we will derive a collective risk appetite for the group. We will use technology handed out at the session to enable this process.

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SYNOPSIS

Alternative Risk Transfer – Capital Markets Update

Alan Ng

Key words:

Reinsurance, Risk Management, Catastrophe Bonds

Purpose of your paper:

As the reinsurance market re-prices following the major catastrophes of 2011, alternatives such as cat bonds have received increasing interest. We consider the current state of the market and where it may be heading.

Synopsis:

The capital market for alternative risk transfer has developed significantly in recent years, partly as a result of the hardening reinsurance cycle and a broader investor base seeking higher yields from sources of risk with low correlation to existing portfolios.

The use of catastrophe bonds as part of a broad reinsurance programme is now established practice for many insurers in Europe, Japan and across North America. While Australian insurers have not been active in this market, there is significant investor demand for exposure to perils that allow diversification from US wind and earthquakes. This presents significant opportunities for actuaries to consider a broader choice in risk management.

In this presentation, we highlight the current state of the global market for cat bonds and other means of risk transfer as alternatives to traditional reinsurance. We will also consider developments in the market both in Australia and internationally resulting from changes to reinsurance capacity, regulation and investor demand.

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SYNOPSIS

ICAAP – A CASE STUDY

Martin Fry & Sharanjit Paddam

Key words:

Insurance Capital Adequacy Assessment Process (ICAAP), Capital Management, APRA, LAGIC, Risk Management, Risk Appetite Statements, Stress Testing

Purpose of your paper:

A case study on developing and implementing an Insurance Capital Adequacy Assessment Process for General Insurance companies and branches.

Synopsis:

As part of the Life and General Insurance Capital (LAGIC) project, APRA has proposed new capital standards to be implemented from 1 January 2013 by all APRA authorized insurers. These new standards include a requirement that the Board of each authorized insurer develops implements and documents an Insurance Capital Adequacy Assessment Process (ICAAP).

This case study provides a practical example of the development, implementation and documentation of the ICAAP, and is based on the authors' experience of doing just this for a number of general insurers.

The case study will also consider the specific issues for small and medium companies and branches.

The presentation will include:

- ... A broad description of the ICAAP requirements;
- ... How the ICAAP requirements fit into the overall risk management framework and governance of the insurer;
- ... Examples of developing risk appetite statements (RAS) in conjunction with the board;
- ... Cascading the RAS throughout the Risk Management Framework;
- ... Stress testing business plan projections to illustrate risk tolerances and limits;
- ... Developing a Trigger Point and Actions summary;
- ... Monitoring processes;
- ... Preparing the annual ICAAP report and relationship with the FCR; and
- ... Independent review plans.

The session is aimed at Board members and senior management who are developing ICAAPs both for 1 January 2013, for ongoing use through-out the year, and for reporting to APRA. Attendees will benefit from being familiar with the APRA ICAAP proposals before the session.

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SYNOPSIS

GOVERNMENT RESPONSE TO NATURAL DISASTER: COVERING OUR ASSETS

Jefferson Gibbs, Melissa Yan

Synopsis:

2011 has been a record year for natural catastrophes across the globe. These catastrophes include Australia floods, NZ earthquakes, Japan tsunami, Thailand floods and US tornadoes. Total insured losses are estimated to be in excess of USD100bn. From a government perspective, destruction or impairment of public assets and essential infrastructure impact directly on public budgets and indirectly on the recovery of the Country or State and individual communities which in turn may cause broad economic consequences. The events in 2011 have highlighted the challenges faced by governments in managing the financial impact of natural disasters on government assets. For example, the economic trade off's of advance funding against post event financing are clear. How does a Government balance generational equity against the cost of advance funding? How does Government build its 'insurance' expertise if insurance is not utilized? Without a price signal for risk, how does a Government maintain a focus on risk management and mitigation where the solution is post event funding?

The paper explores these issues against a backdrop of the impact of recent natural disasters in Australia and in the context of the existing state and commonwealth structures in place.

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SYNOPSIS

MODEL EVALUATION & NON MODELLED ELEMENTS IN CATASTROPHE MODELS

Andrew Hulme

Key words:

Catastrophe Modelling, Non Modelled Perils, Model Evaluation

Purpose of your paper:

The purpose of this paper is to help management and practitioners alike understand the variations between catastrophe models and what loss elements are included and excluded from vendor catastrophe models. This paper highlights the key differences between the current catastrophe models used by the insurance industry and introduces a framework for evaluating catastrophe models. It will also explore the benefits and difficulties associated with using multiple models.

Synopsis:

The insurance industry's use of catastrophe modelling has grown at an exponential rate in recent times. Catastrophe models are utilized by underwriters, capital modellers, rating agencies and regulators to quantify catastrophe risk. The models are built by a variety of organizations, each with their own strengths and weaknesses. Recognizing the importance of catastrophe modelling in the decision making process of insurers, GPS116 includes a requirement for management to understand the models employed for decision making. These forces have made Catastrophe Model Evaluation a crucial input in the Capital Management process.

In this paper we will outline a framework for evaluating catastrophe models, introduce the models commonly employed for assessing Australian and New Zealand catastrophe risk, and offer some thoughts as to the relativities between each. We will also discuss what loss elements are included and excluded from vendor catastrophe models and how these elements may be addressed as well as the benefits of using multiple models and how this may be achieved.

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SYNOPSIS

PRACTICAL STRESS TESTING USING REALISTIC DISASTER SCENARIOS FOR AUSTRALIA AND NEW ZEALAND

Will Gardner

Keywords:

Realistic Disaster Scenario, RDS, ICAAP, Stress test, PML, Cyclone, Earthquake, Flood, Bushfire, Storm, Hail, Terrorism, Tsunami

Purpose of your paper:

To propose a methodology and a series of realistic disaster scenarios to provide insurers in Australia and New Zealand with a practical approach for stress testing against loss from physical catastrophes.

Synopsis:

In order to develop a comprehensive strategy for quantifying and managing catastrophe risk, insurers and reinsurers need to use a range of approaches outside of traditional actuary techniques. One approach that has had limited focus to date in Australia and New Zealand is the use of the Realistic Disaster Scenario (RDS).

Realistic Disaster Scenarios can be used to stress test the financial impact of loss from pre-defined catastrophic events. By setting a standard catalogue of realistic events, each with corresponding parameters to allow for loss estimation, various different portfolios may be compared under each scenario and across all events.

This paper outlines a formal approach for constructing a series of realistic events in Australia and New Zealand from a range of potential physical catastrophes. It also describes a methodology to enable companies to use the events to estimate loss on specific portfolios and how to combine and compare outputs from this technique with outputs from other approaches.