

# Assessing ICAAP in the FCR

**LIWMPC** 

19 March 2014



# **Agenda**

- Adrian Rees The view from APRA
- Nick Kulikov The link between Risk and Capital
- Rob Daly Experiences and observations
- Panel discussion and Q and A



### Assessing ICAAP in the FCR

# **LPS320**

FCR must include "an assessment of the life company's Internal Capital Adequacy Assessment Process; and an assessment of the suitability and adequacy of the risk management framework"

- LPS110 Capital Adequacy
- CPG110 Internal Capital Adequacy Assessment and Supervisory Review
- APRA's own observations of ICAAP summary statements across the industry. (9 December 2013 letter)



# The View from APRA

**ADRIAN REES & SUSANNE SZOLDRA** 



# Appointed Actuary assessment of the ICAAP

- The AA is required to provide an assessment of the ICAAP in the FCR
- APRA's 9 December letter to industry on review of ICAAP Summary Statements is a starting point - but it is not a checklist
- APRA is expecting assessments will evolve as ICAAPs themselves evolve



#### The view from APRA

- APRA has observed the ICAAP in practice for a year and has discussed with boards and senior management potential areas for development
- APRA anticipates these and other aspects could be considered in Appointed Actuaries' assessments of ICAAP



#### **Evolution of the ICAAP**

- ICAAPs have only been in place for a year and APRA has received only a relatively small number of post 1 January 2013 FCRs (2/3<sup>rds</sup> of insurers have December balance dates)
- Expect ICAAPs will continue to be bedded down over next few years



# ICAAP Requirements (LPS 110 para 13)

Triggers to alert management & specified actions to avert breaches

Stress testing & scenario analysis

Capital targets & sourcing additional capital

**ICAAP** 

ICAAP reporting & input in making business decisions

Identify, measure, monitor and manage risks & the capital held against risks

Material risks not covered by regulatory capital



# ICAAP Summary Statements (LPS 110 para 14)

Key assumptions and methodologies

ICAAP objectives, expected level of financial soundness, time horizon

Triggers for reviewing ICAAP

ICAAP summary statement

Describes the capital assessment & management processes

Policy for reviewing ICAAP: who, frequency, scope, reporting on review

Basis of measurement of capital & differences from regulatory capital basis



# ICAAP Report (LPS 110 para 17)

Detail and outcomes of stress testing and scenario analysis

Capital usage over the planning horizon

Material changes to the ICAAP

ICAAP report

Anticipated changes in risk profile or capital management processes

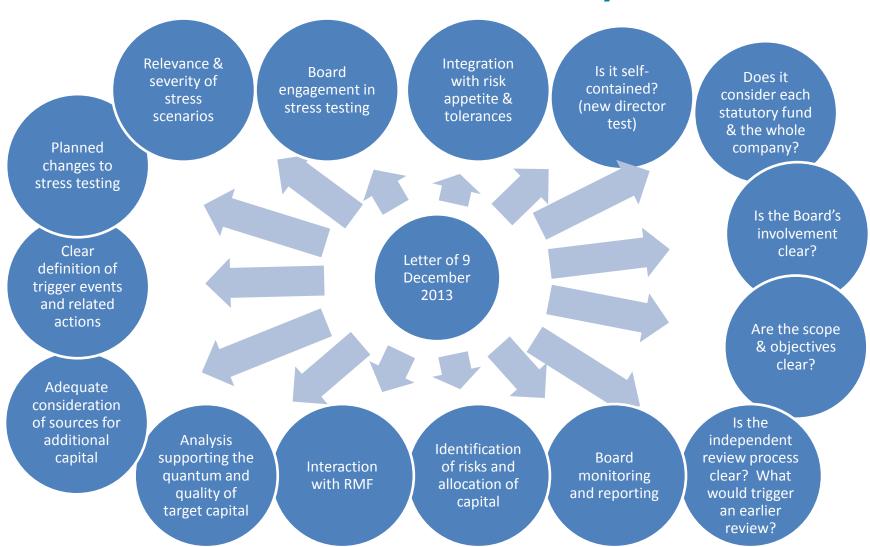
Actual outcomes relative to planned outcomes

Current and projected capital levels relative to regulatory capital requirements and target levels, for each fund and the whole company

Details of reviews, recommendations for change and how being addressed

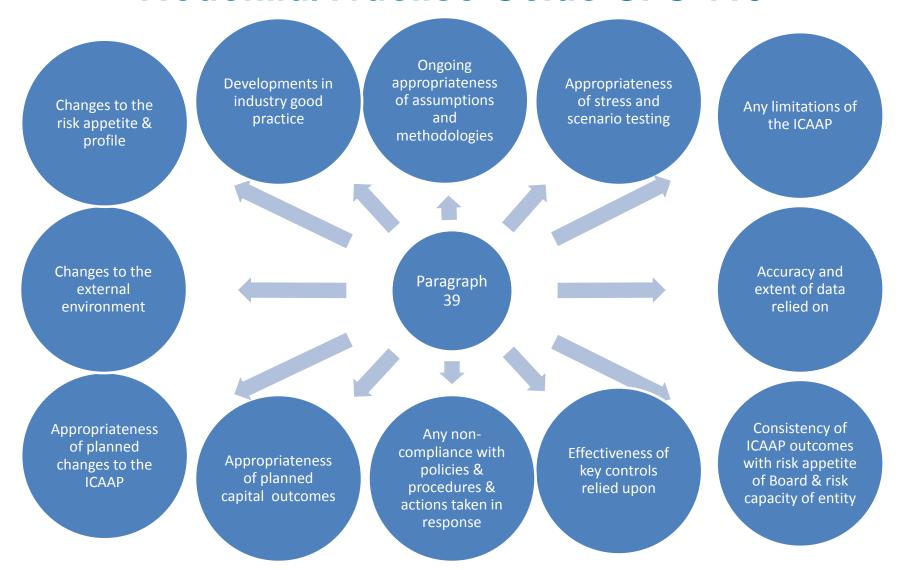


# **APRA** review of ICAAP Summary Statements





#### **Prudential Practice Guide CPG 110**





# Some Key Areas - board ownership

- While the ICAAP may be developed by senior management the capital standards require the board to be actively engaged
- Feedback is that this has been a worthwhile process for boards enhanced understanding
- How effective has this been e.g. have board learnings translated into improved practices and outcomes?



# Some key areas – embedding

- Triggers to alert management <u>specific</u> <u>triggers and actions</u>
- Stress testing and scenario analysis severe but plausible, 'fit for purpose'
- Alignment with risk appetite & capacity
- Input into business decision making
- Business outcomes and environment taken into account – 'feedback loop'

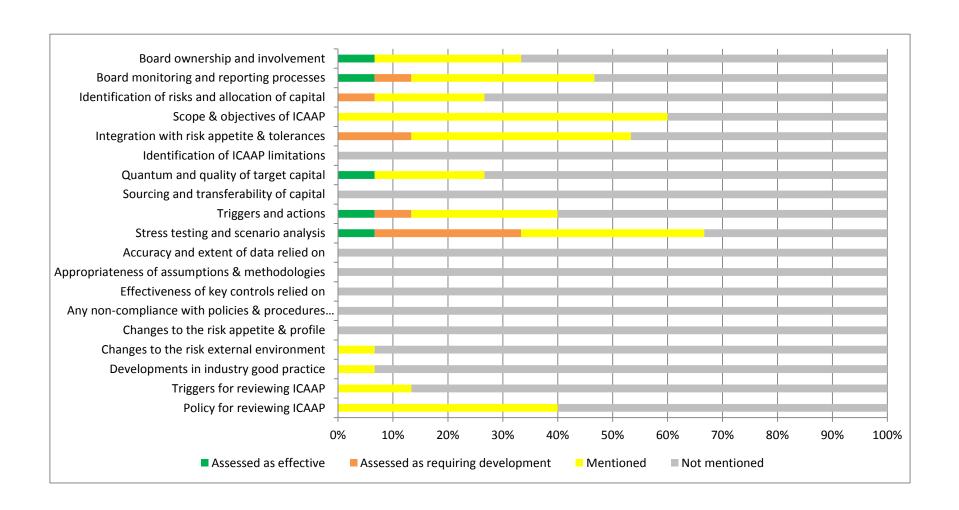


# **APRA** review of ICAAP Reports

- APRA is intending to review ICAAP reports and provide feedback to industry
- Also intending to review AA assessment of ICAAP in the FCR and provide feedback (see sample format on next slide)



# AA assessment of ICAAP in the FCR - sample format for APRA feedback





# **APRA** industry stress testing

- APRA is planning life industry stress testing for 2015
- Industry engagement will commence mid 2014



# The Link between Risk and Capital

**NICK KULIKOV** 



# Link between Risk and Capital

- The ICAAP requires capital adequacy to be considered in the context of the risk profile, risk appetite and regulatory capital requirements.
- How is this achieved practically?
- Development of Risk Culture & incorporation into the decision making process
- Incremental process of change
- Appointed Actuaries & other Risk Professionals should be key drivers of the change
  - Product Pricing
  - Risk Assessments
  - Stress & Scenario Testing



# **Experiences and Observations**

**ROB DALY** 



# Panel Discussion and Q & A