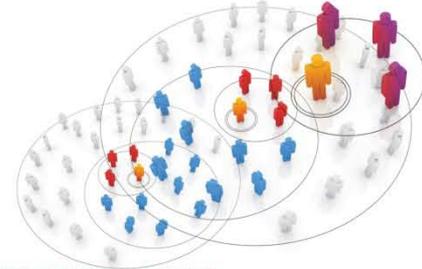




Institute of Actuaries of Australia

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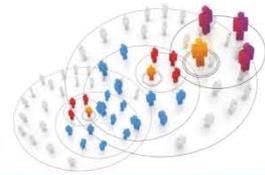
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# International Influences in Global Risk & Regulation

Thinking beyond the mandate

**Desmond Smith**

© Sanlam

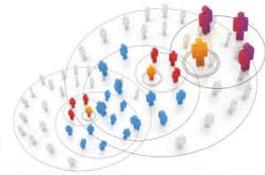


“The financial arena has already proved to be a watershed for the insurance industry in many parts of the world.

What customers, investors, governments and regulators expect from insurers is changing rapidly and pervasively and the developments we see today are only the beginning. The environment will continue to evolve at a rapid pace over the next two to three years, ruling out any return to the relative stability and certainty that preceded the crisis.”

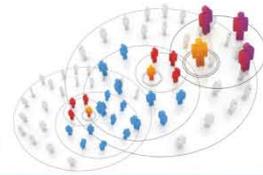
**“The day after Tomorrow”**

PWC



“This shake-up will challenge the competitive relevance of some insurers. However it also offers agile and farsighted firms a once-in-a-generation opportunity to catapult themselves to the front of what will be a very different racing order.”

**“The day after Tomorrow”**

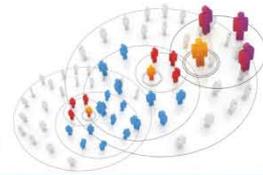


## What contributed to the GFC?

- Ineffective governance structuring – it is demonstrated that differing risk management practices help to explain the relative performance of financial institutions during the crisis.
- Unrecognized risks related to changing business models – it is demonstrated that Senior Management and Boards often did not fully understand how revenues were generated – changes to business models should have but did not set off alarm bells.

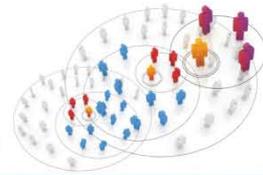
**“Why managing the risks of Evolving Business Models is the key to Avoiding the current Financial Crisis.”**

PWC Financial Services Institute (FSI) publication of January 2011

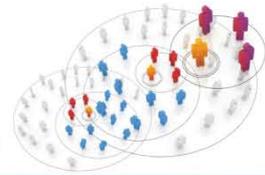


## Lessons learnt

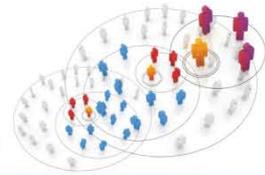
- there is a need for a holistic view of financial sector regulation
- the so-called “light touch” approach to regulation at a global level has failed
- the importance of regulating market conduct to support prudential regulation must not be under-estimated
- global co-operation is required to prevent macroeconomic imbalances
- swift regulatory action is necessary to prevent contagion



“The integration of economies and markets, as evidenced by the financial crisis spreading worldwide, highlights the critical importance of relevant statistics that are timely and internally consistent as well as comparable across continents.”

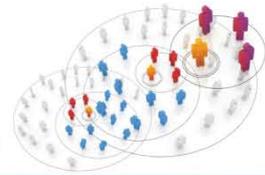


“Macro prudential regulation focuses on preventing or safeguarding systematic risks, whereas micro prudential regulation focuses on identifying risks to an individual firm and requiring firms to protect against those risks.”



“Financial stability is now a major concern for all financial supervisors and policy development is suspected to take some years. One of the most urgent tasks is to address the issue of systemically important financial institutions (SIFIs).”

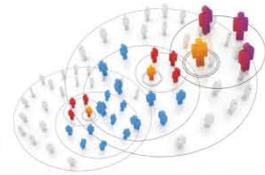
**Peter Braumuller**  
**Chairman of the IAIS**  
Council of the IAA in Vienna  
October 2010



“... the final report is expected to recommend

- policy framework to reduce the moral hazard risks associated with SIFIs;
- effective resolution tools that enable the authorities to resolve financial firms without systematic disruptions and without taxpayer losses;
- prudential requirements on firms commensurate with their systemic importance;
- differentiated supervision requirements for institutions based on the risk they pose to the financial system.”

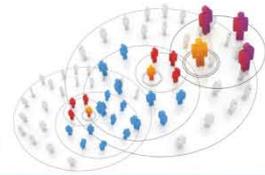
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The point of departure is the G-20 objectives of:

- a stronger regulatory framework;
- effective supervision;
- crisis resolution and addressing systemic institutions;
- international assessment and peer review.

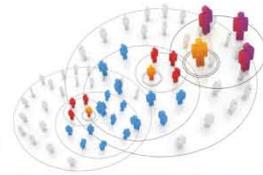
**“A safer Financial Sector  
to serve South Africa better”**  
National Treasury



The top 10 risks were:

1. Investment performance (11)
2. Equity markets (13)
3. Capital availability (26)
4. Macro-economic trends (-)
5. Too much regulation (1)
6. Risk management techniques (14)
7. Reinsurance security (27)
8. Complex instruments (19)
9. Actuarial assumptions (8)
10. Long tail liabilities (7)
- ...
22. Natural catastrophes (2)

**Insurance Banana Skins**  
**CSFI, 2009**



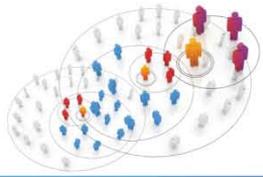
“Change is avalanching upon our heads and most people are grotesquely unprepared to cope with it.”

**Alvin Toffler (1970)**  
**“Future Shock”**

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Thank you  
& enjoy the convention