



**Actuaries
Institute**

Insights

Reflections on the implementation of ICAAP

A panel Q&A with:

Stephen Defina

Noeline Woof

Brett Riley

Adrian Rees

Insights

Reflections on the implementation of ICAAP

Stephen Defina

Head of Business Performance, Guaranteed
and Mature

AMP Life

A quick scene set

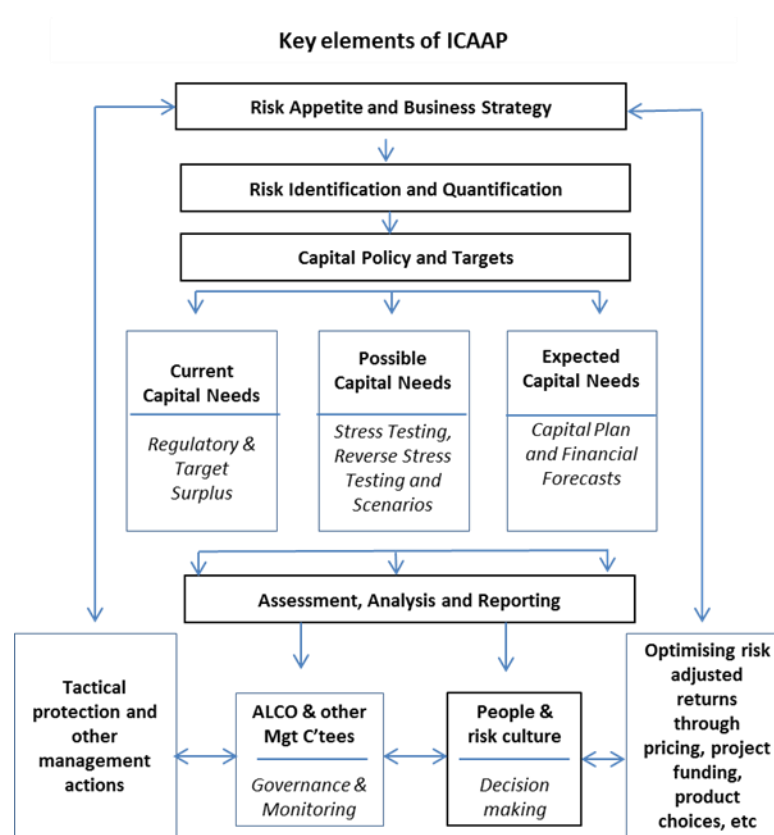
An Internal Capital Adequacy Assessment Process (ICAAP) is the strategies and processes that allow an entity to assess and maintain adequate capital, on a continuous basis, to cover the type and quantum of risks to which they are, or might be, exposed in a manner consistent with their Risk Appetite Statements and Business Strategy. *

*bits and pieces taken from a number of definitions that I can no longer find, apologies to whomever

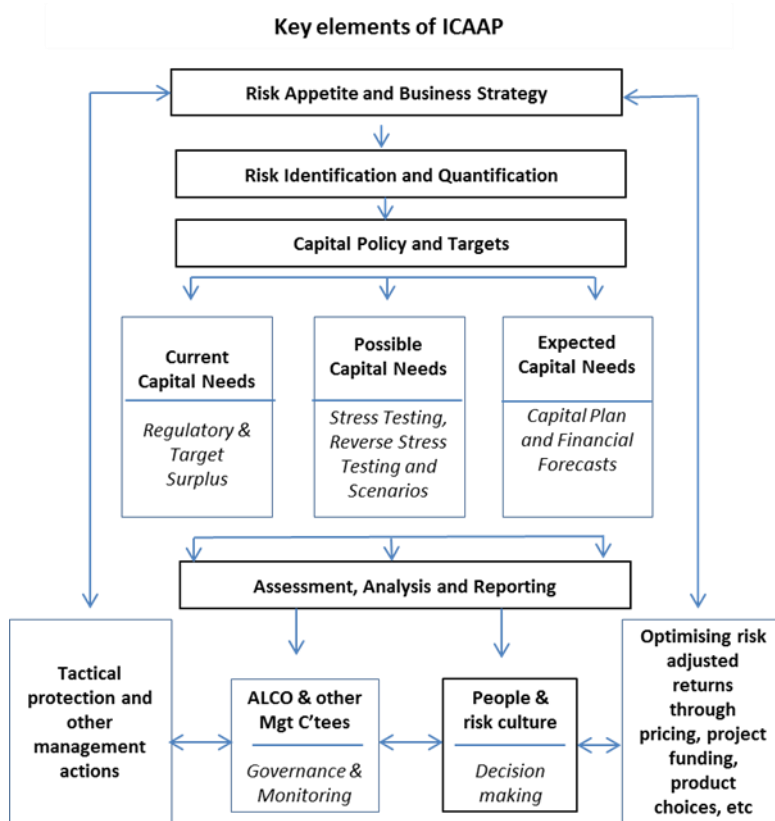
An ICAAP must be appropriate to the entity's size, business mix and the complexity of its operations. #

#APRA Standards

A bit more colour (in B&W)



A bit more colour (again)



Other Stuff

- Board engagement.
- 2 major deliverables approved/owned by Board, ICAAP Summary Statement & Annual ICAAP Report
- Parties involved to make it work, CEO, Business Heads, CRO, AA, Treasury....
- Responsibility for who does what and maintenance
- Documentation
- Independent review, and
- **Most importantly, how do we ensure the ICAAP adds value?**

Implementation and challenges

As you would expect, AMP already had most of the elements of an ICAAP in place. We already had, for each Life Co, a Risk Management Strategy, Risk Appetite, Capital Management Framework and Plan and a multitude of processes, guidelines and related policies.

Implementation was driven by a project team from Group Actuarial assisted by Group Risk Management, Treasury, Bank, business units and external advisers.

Following several updates in 2012 Board meetings and a workshop in November, the Summary Statement and ICAAP were approved in December 2012. The Boards were briefed on the proposed ICAAP Report content in Q3 13 and a workshop with the final draft was conducted on early March 2014 prior to sign off in late March.

Areas of trade off, difficulty and debate included:

- AMP was going through significant change with merger and other initiatives that complicated ICAAP implementation but possibly enhanced some benefits
- Implementing in tandem with the LAGIC methodology complicated delivery
- Defining relationship with Risk Management Strategy and Financial Condition Report
- Finding the “right” level of documentation
- How big is my Summary Statement?
- Structuring ICAAP Report to highlight what is important but meet prescriptive requirements

Some implementation outcomes

Other than meeting the requirements, what did we get:

- Consistent approach across both Life Co's and one set of documents and tools (unless differences absolutely essential)
- Alignment to AMP Bank and to expected Group ICAAP
- Pulling holistic view of capital (linkage to risk & strategy, management, governance, etc) together in an easily accessible format
- Capital awareness heightened and new measures have commenced rollout
- Capital discussions more holistic than previously , combining business & solvency views
- Board keen to track progress and value add measures
- Areas for future work identified as:
 - Improved stress and scenario testing
 - Refinements to some risk measures and linkage to capital
 - Improving coordination between teams, Actuarial, Risk Management, Business Performance
 - Improve documentation model
 - Capturing risk/return aware decision making
 - Reducing duplication between related reports such as FCR, RMS, Summary Statement and Annual Report

Some other reflections

Capital is only one component of risk appetite and is commonly measured in terms of risk of breach. At times it may not be the most important measure, as recent lapse experience in the Life industry has shown.

The capital standard states that the ICAAP must be appropriate to the entity's size, business mix and the complexity of its operations.

There may be very different perspectives on ICAAP depending on these factors:

- Smaller organisation – less people/positions involved?
- Capital constrained – capital availability drives strategy and appetite?
- Niche player – little or no insurance diversification?
- Large parent – dividend influenced by their strength and capacity to support?

How will regulation evolve? Is it appropriate to seek best practice in all areas?

Insights

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Noeline Woof

Chief Actuary and Chief Risk Officer

Alliance Australia

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Brett Riley

Principal

Finity Consulting



ICAAP Insights - APRA's Perspective

Presentation to Actuaries Institute
12 June 2014

Adrian Rees
General Manager – Diversified Institutions Division
Australian Prudential Regulation Authority

- New requirement from 1 January 2013
- Review of ICAAP Reports
 - Commenced April 2014
 - Analysis and benchmarking
 - Bilateral feedback: as required
 - Industry feedback: planned Q3:2014



- Feedback so far but ...
- Based on a very limited sample
- Picture may change as we complete our benchmarking



- Overall quality good
 - Experience with ICAAP Summary Statements beneficial
 - ‘Follow up’ areas identified in ICAAP SS generally were followed up
 - Some duplication / restatement of matters already covered in the ICAAP SS



- 4 broad areas
 - ‘Look back’ generally
 - ‘Look back’ at capital management
 - ‘Look forward’ 3 year horizon
 - Stress test outcomes



- Material changes to ICAAP
- Changes to risk appetite / profile
- Independent review of ICAAP Report
- Board declaration



- Comparison of current capital vs. regulatory minimum
- Breakdown of PCR and capital base
- Details of capital instruments
- Actual vs. planned outcomes of ICAAP
- Economic vs. regulatory capital



- 3 year capital projections
- Changes in risk profile
- Capital adequacy statement
- Factors driving capital needs



- Link between ICAAP Summary Statement and ICAAP Report
- Susceptibility to stresses
- Reverse stress testing
- Use of outputs from stress testing and scenarios

Q & A

