

# **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

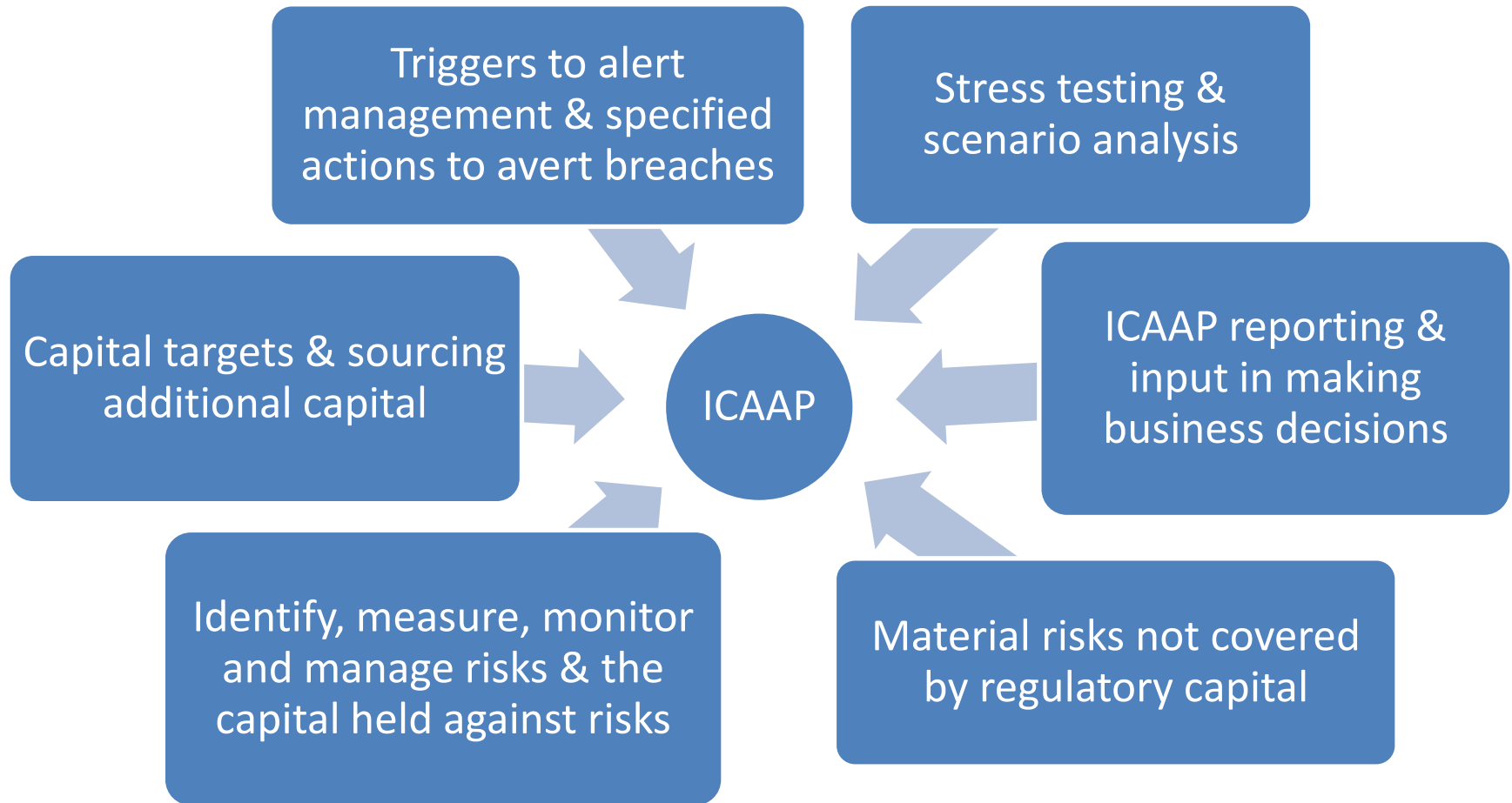
## The view from APRA

- 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

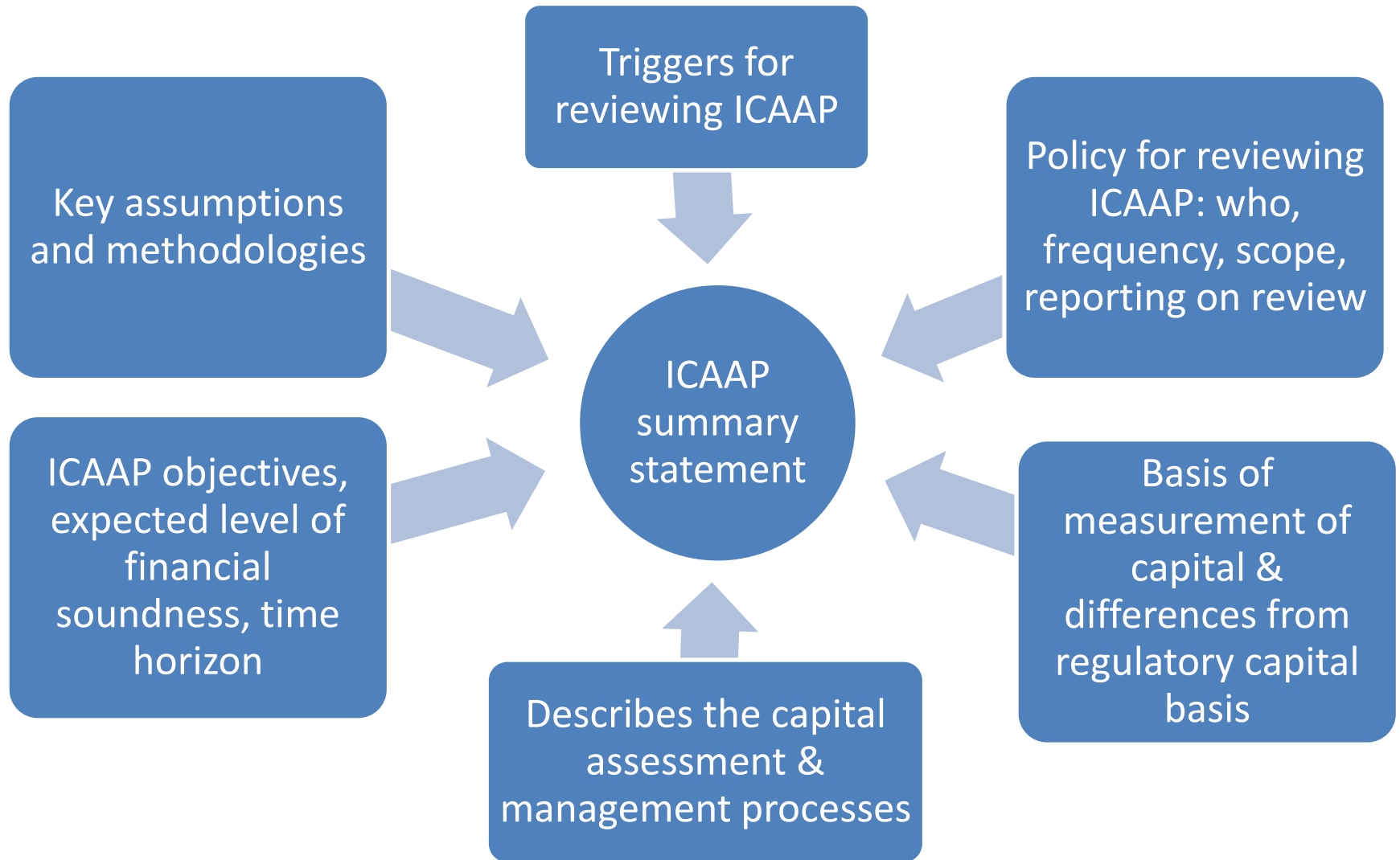
- ICAAPs have only been in place for a year and APRA has received only a relatively small number of post 1 January 2013 FCRs (2/3<sup>rds</sup> of insurers have December balance dates)
- Expect ICAAPs will continue to be bedded down over next few years

# ICAAP Requirements (LPS 110 para 13)

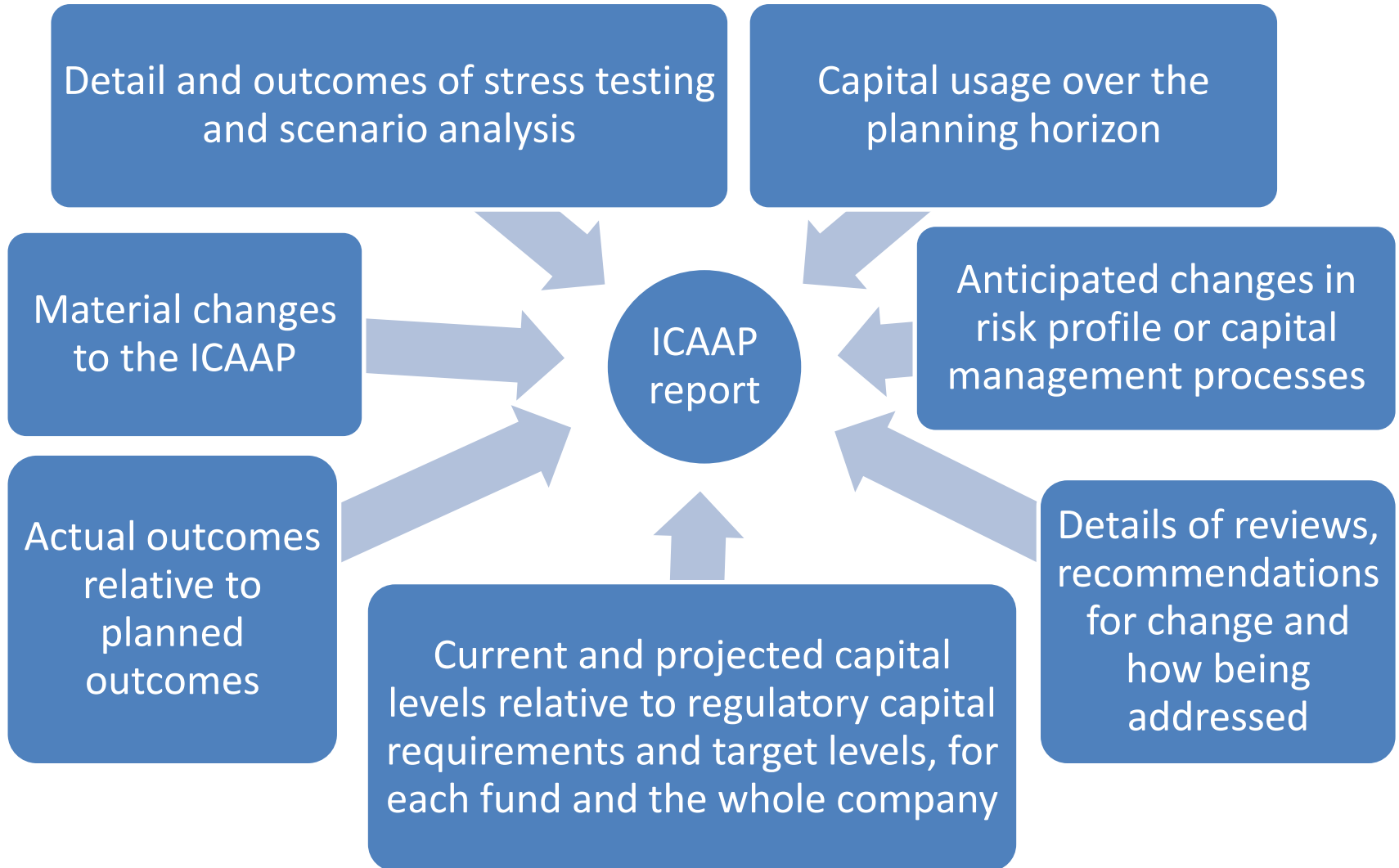




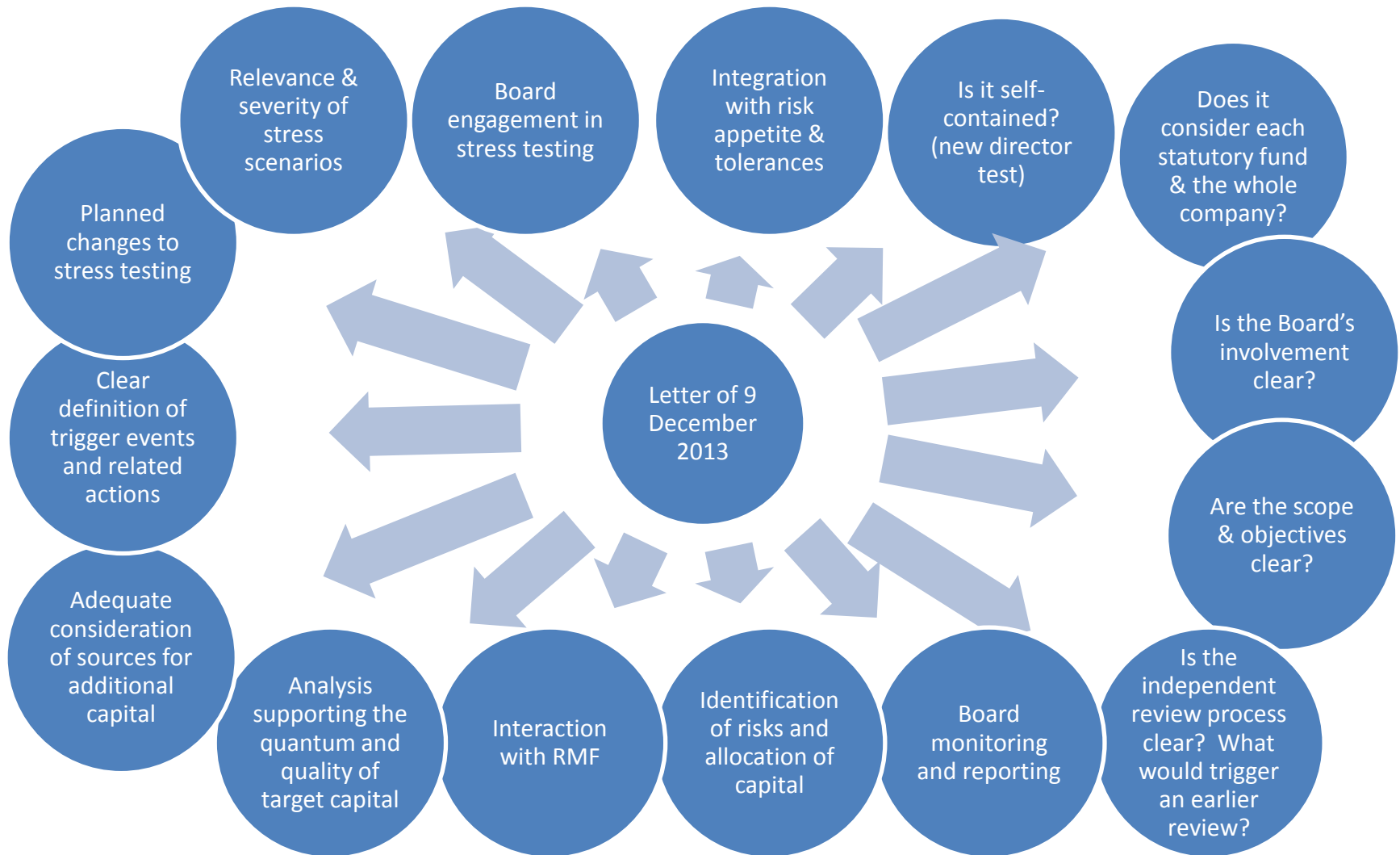
# ICAAP Summary Statements (LPS 110 para 14)



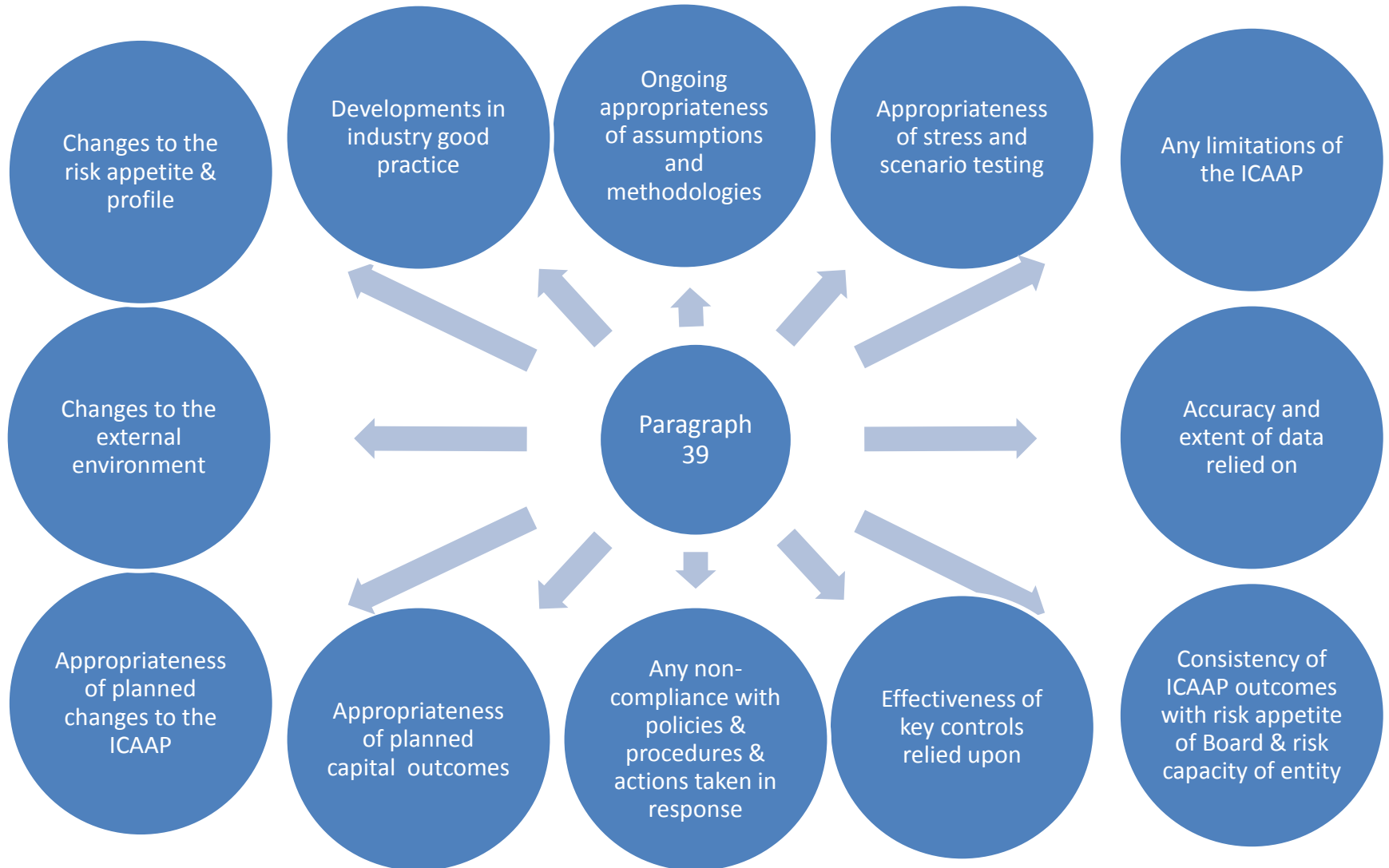
## ICAAP Report (LPS 110 para 17)



# 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?

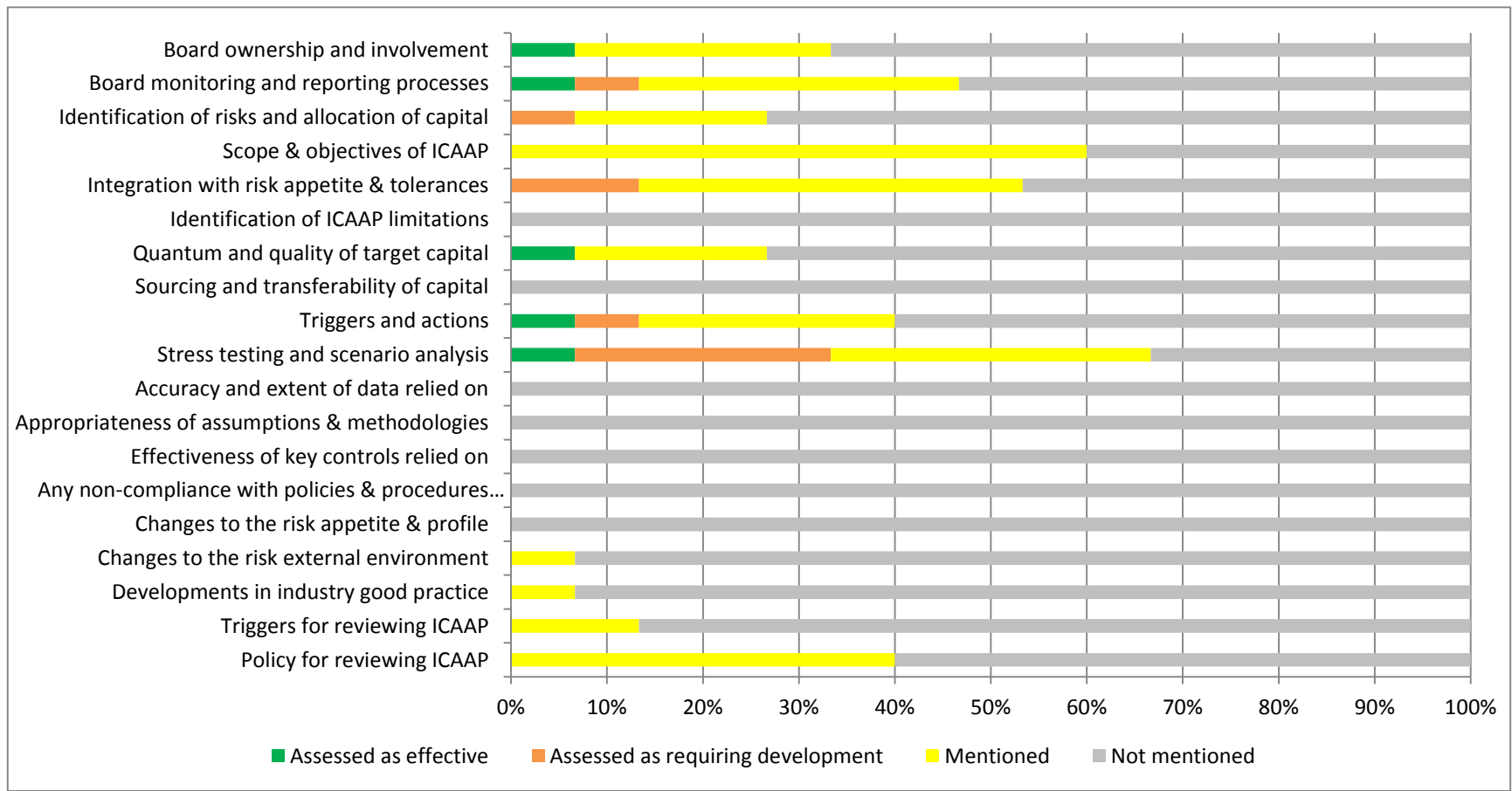
## Some key areas – embedding

- Triggers to alert management – specific triggers and actions
- 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