



Stress Testing: APRA's expectations and observations

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Agenda



1. Stress testing - the what and why
2. APRA's stress testing strategy
3. International perspective
4. APRA's expectations
5. APRA's stress testing program

Stress testing - the what and why



- A definition of stress testing
- Critical risk and capital management tool - part of ICAAP
 - Risk profile and appetite
 - Forming capital targets and trigger levels
- Not to be relied upon in isolation
- Aid comparability across an industry

APRA strategy



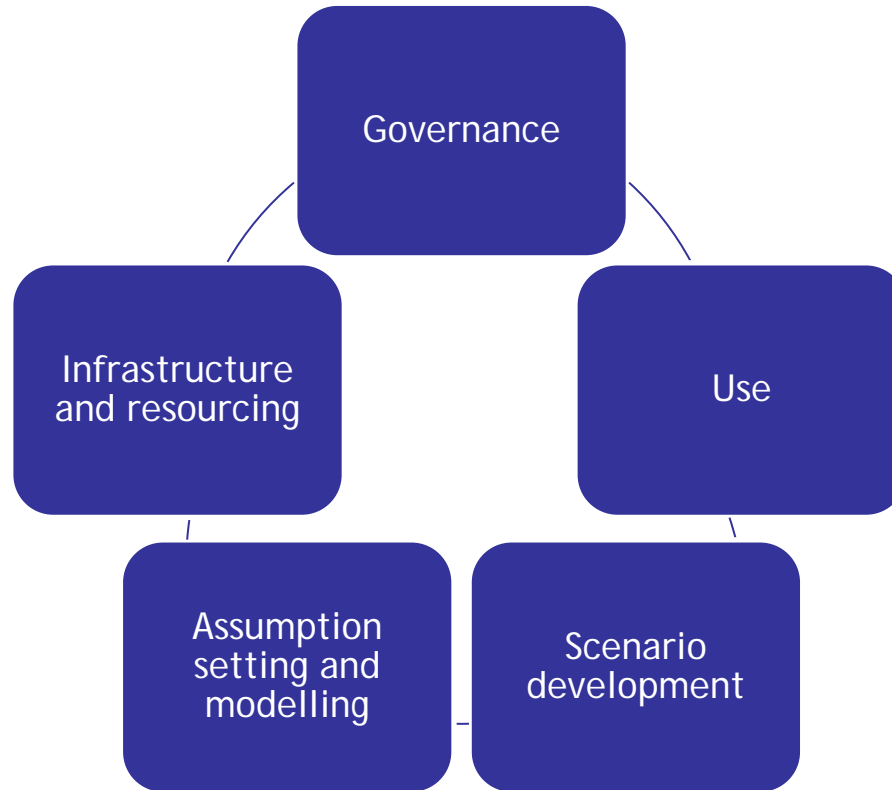
- Increased internal investment
- Participation in international work
- Review of bank / insurer stress testing practices
- Periodic industry stress tests

International practice



- IMF paper
- Banking and insurance core principles
- International practice
 - Objectives of stress tests
 - Coverage
 - Risk horizon
 - Scenarios / risks
 - Management actions

APRA expectations



Note that APRA will be writing to all life insurers and friendly societies with its expectations in relation to stress testing.

Governance



- Oversight by board
- Challenge by board
- Oversight and involvement by management
- Policy framework and documentation

Use



- Understanding of risk and risk management
- Capital targets and triggers
- Links to risk appetite
- Links to strategic and business planning

Scenario development and application



- Severe but plausible
- Scenario scope
- Multi-factor and multi-period
- Scenario narrative

Assumption setting and modelling



- Assumption rationale
- Assumption granularity
- Model suitability
- Management actions
- Multi-period scenarios

Infrastructure and resourcing

- System architecture
- Resourcing



APRA stress testing program



- Three year cycle across banking, life insurance and general insurance
- Multi-insurer stress test in life insurance in 2015
- Assess stress testing capabilities of the industry
- Examine resilience of the selected insurers by release of common scenario
- Share APRA expectations and the common scenario with rest of industry

Summary



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Questions?