

Capitalizing on change

Insurance Regulatory Risk & Capital Changes in Asia-Pacific

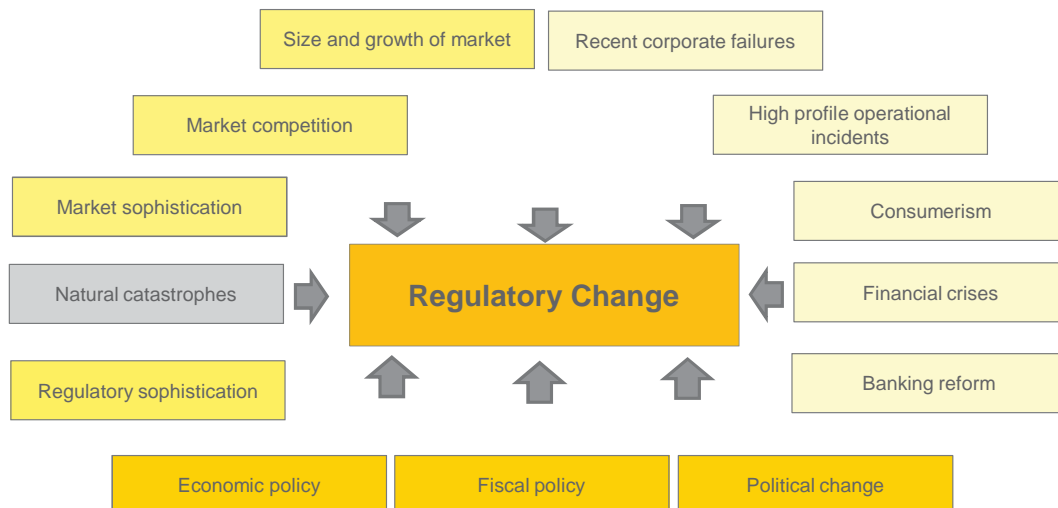
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Risk and capital regulatory change

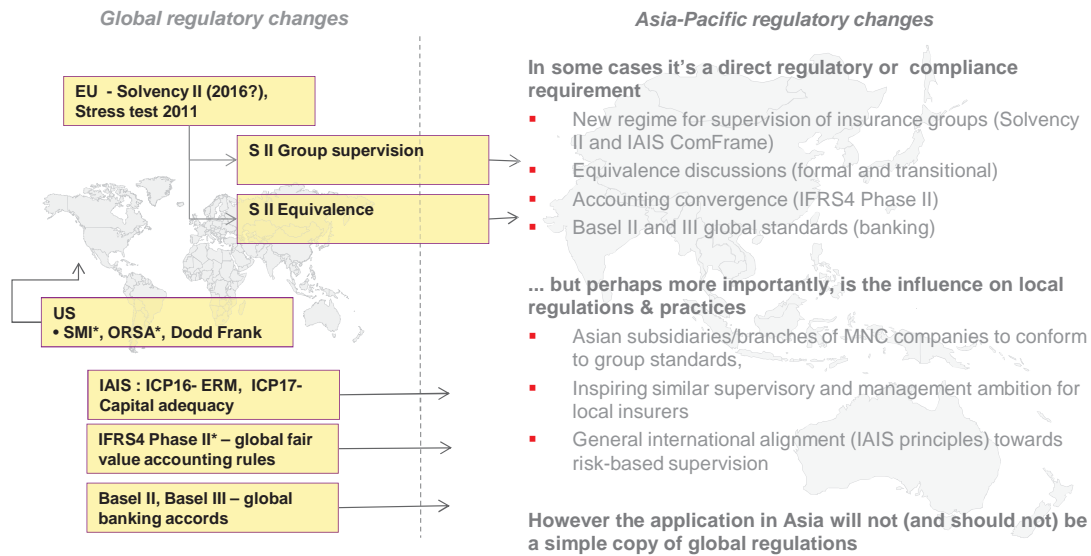
Events in recent years have accelerated the need for regulatory change

Insurance risk and capital regulation has largely lagged development of the markets over the last 30 years, and this prompted developments such as Europe's Solvency II and various forms of Risk Based Capital measures across the globe. Economic turmoil and large underwriting losses in recent years, have exposed weaknesses in the supervisory system, and accelerated the need for change.



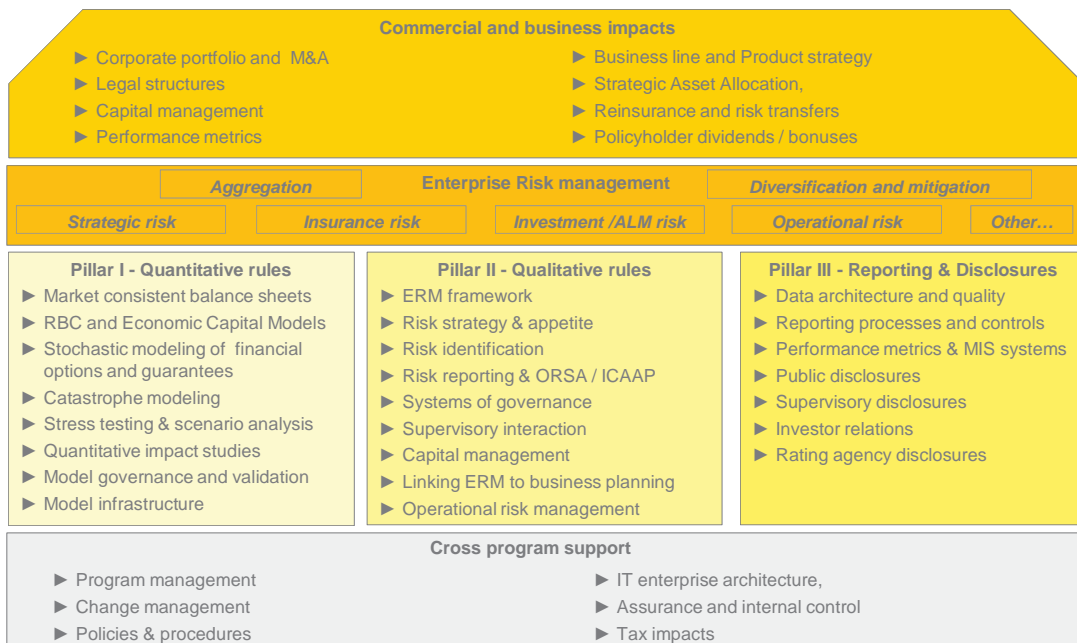
Global and local impacts

This global regulatory trend extends to Asia-Pacific with a “second wave” of risk and capital regulations in markets across the region.



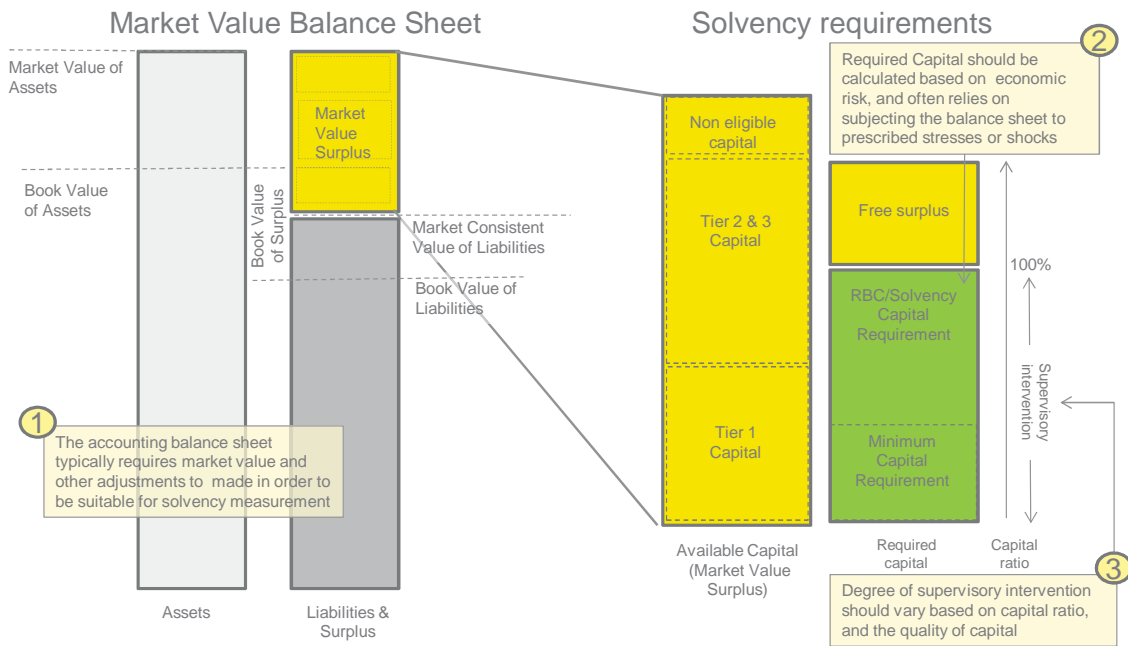
Risk and capital management framework

The technical rules need to be managed in the context of the wider business environment



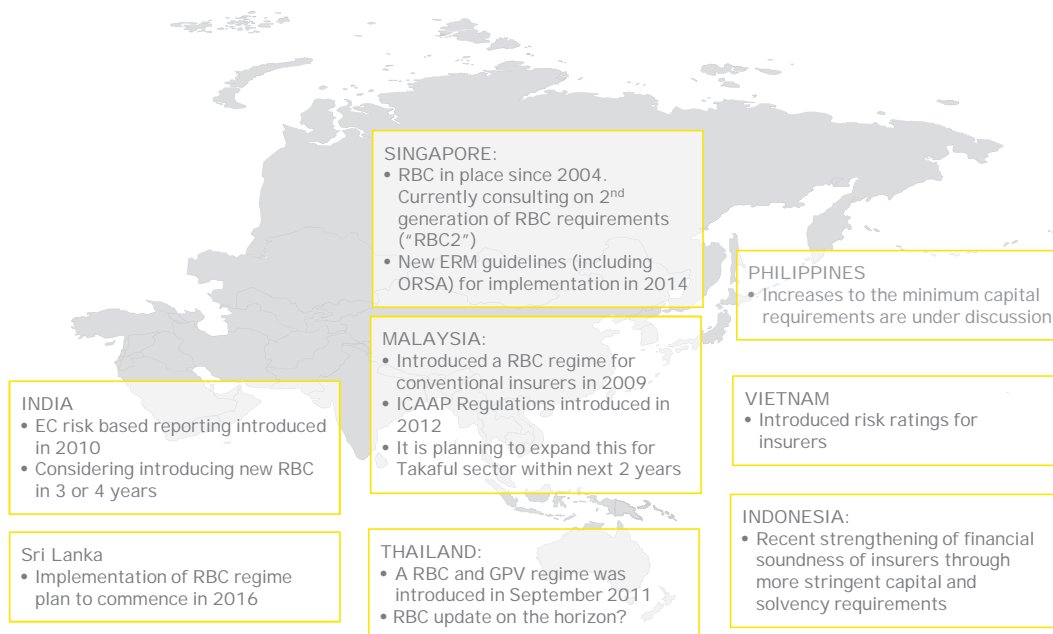
Pillar 1 (Quantitative) framework

There is a need to understand in detail the measurement of both required capital and available capital



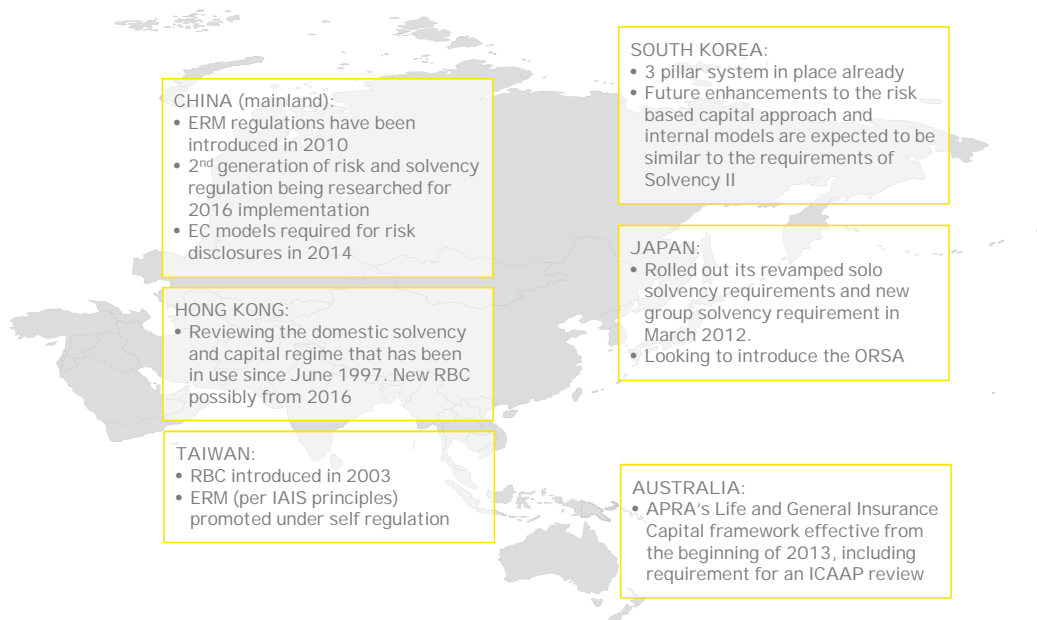
Regulatory developments in Asia (1/2)

Change is happening in almost all markets, albeit with varying pace and scope



Regulatory developments in Asia (2/2)

Change is happening in almost all markets, albeit with varying pace and scope



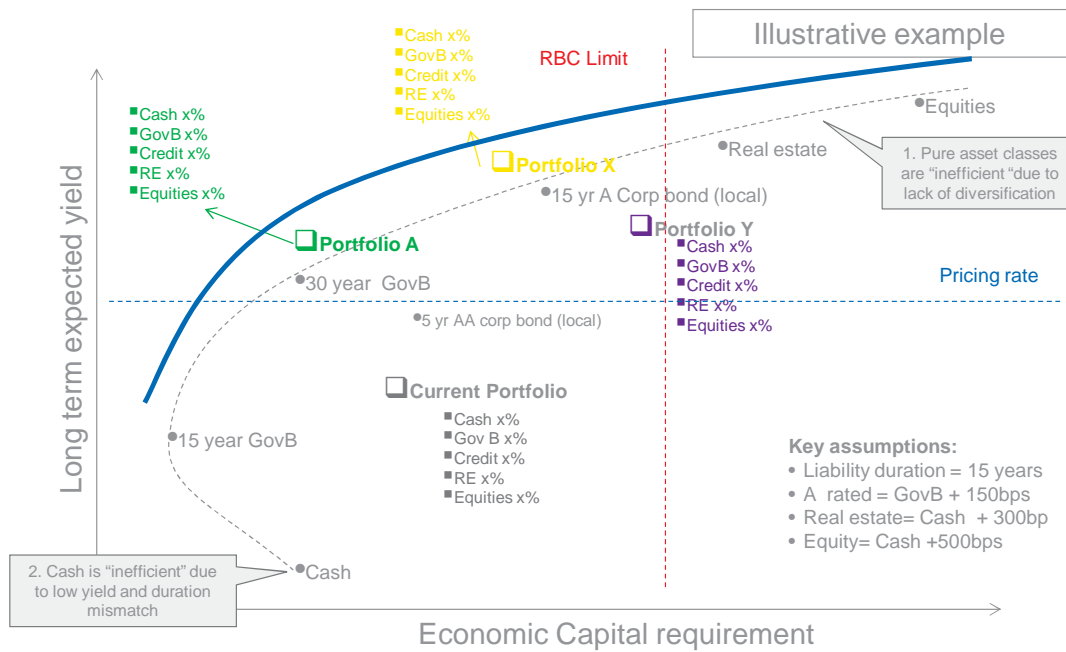
Commercial impacts

Changing the rules changes the game



Commercial impact: Asset allocation - Efficient frontier

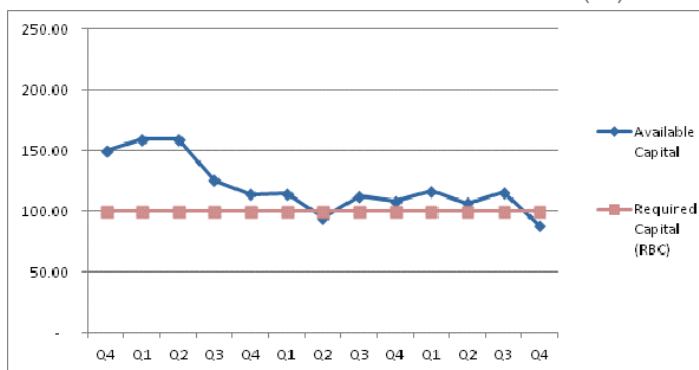
There is no single “right” answer, but optimization depends on corporate risk appetite



Commercial impacts – capital management

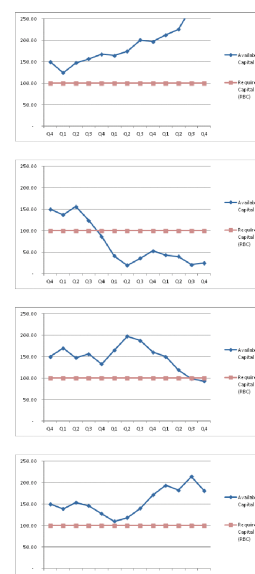
A market consistent risk based capital regime is “by design” a volatile regime

Illustrative simulation of trend in RBC ratio (%)



- ▶ Volatility is a direct result of statistical variation; quarterly movements of 20% are entirely consistent with a RBC based on 99.5% one-year VaR
- ▶ The volatility lies in the available capital, and not the required capital
- ▶ Requires active management of available capital, and to the extent possible, required capital
- ▶ Regulators, investors and management still need to become accustomed to these metrics

Alternative simulations



What's in it for the actuarial profession?

- ▶ The role of the actuary is expanding beyond traditional areas
- ▶ A great opportunity to be more involved with the business and demonstrate value and 'make a difference'
- ▶ Challenges
 - ▶ Perception
 - ▶ Experience, skill and competencies
 - ▶ Ability to work effectively with people from different functional areas, manage multiple stakeholders and help to drive behaviour changes
 - ▶ Development and adoption of professional standards

Key takeaways

- ▶ It's a new world order, and capital is scarce and fiercely contested
- ▶ New regulations are coming. While exact shape or form may vary, they are coming
- ▶ The risk-reward tradeoff has become much more complex
- ▶ Capital and risk management becomes an integral part of an active dynamic business planning and management cycle
- ▶ New rules, new game – This is more than just a new set of actuarial and risk technical calculations. This will impact the way you do business
- ▶ A great opportunity for the actuarial profession, but not without its challenges

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