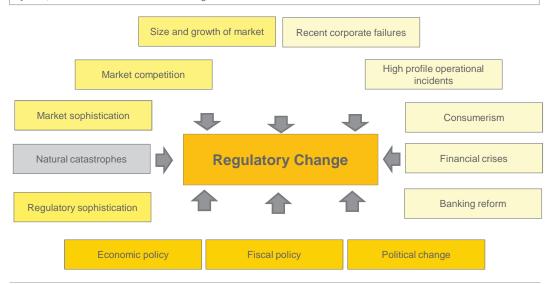


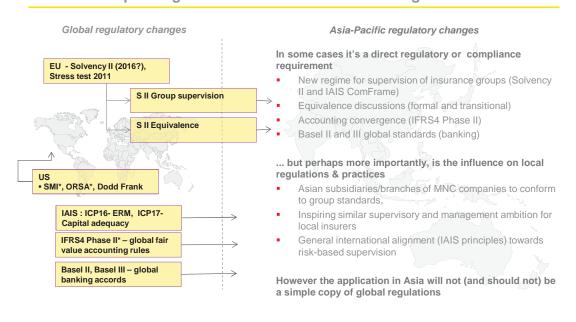
#### Risk and capital regulatory change Events in recent years have accelerated the need for regulatory change

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.



Page 3

Regulatory Risk & Capital Changes in Asia-Pacific



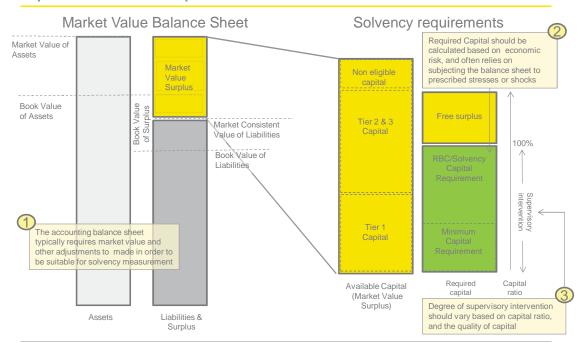
#### Risk and capital management framework

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

#### Commercial and business impacts ► Corporate portfolio and M&A ▶ Business line and Product strategy ► Legal structures ► Strategic Asset Allocation, ► Capital management ► Reinsurance and risk transfers ► Performance metrics ► Policyholder dividends / bonuses **Enterprise Risk management** Diversification and mitigation Strategic risk Insurance risk Investment /ALM risk **Operational risk** Other. Pillar II - Qualitative rules Pillar I - Quantitative rules Pillar III - Reporting & Disclosures ► Market consistent balance sheets ► ERM framework ▶ Data architecture and quality ► RBC and Economic Capital Models ► Reporting processes and controls ► Risk strategy & appetite ► Stochastic modeling of financial ► Risk identification ▶ Performance metrics & MIS systems options and guarantees ► Risk reporting & ORSA / ICAAP ► Public disclosures ► Catastrophe modeling ► Systems of governance ► Supervisory disclosures ► Stress testing & scenario analysis ► Investor relations ► Supervisory interaction ▶ Quantitative impact studies ► Capital management ► Rating agency disclosures ► Model governance and validation ► Linking ERM to business planning ► Model infrastructure ► Operational risk management Cross program support ► Program management ► IT enterprise architecture, ► Change management Assurance and internal control ► Policies & procedures ► Tax impacts

#### Pillar 1 (Quantitative) framework

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



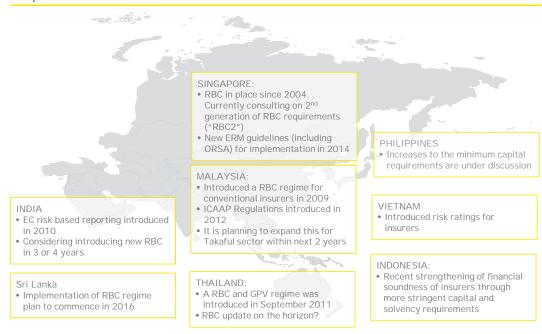
Page 5

Regulatory Risk & Capital Changes in Asia-Pacific



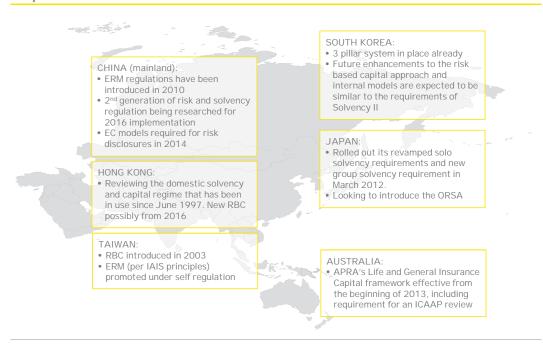
#### Regulatory developments in Asia (1/2)

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



Page 7

Regulatory Risk & Capital Changes in Asia-Pacific



### Commercial impacts

Changing the rules changes the game

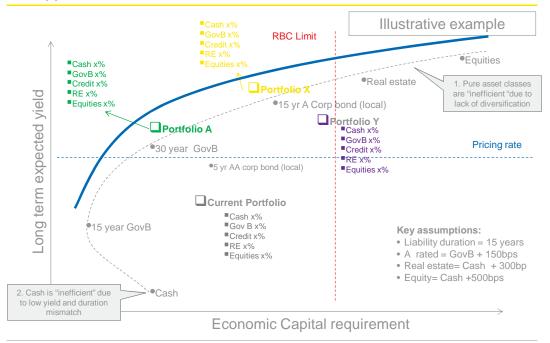
**Products** Corporate structures & Strategic asset portfolio allocation and **ALM** Capital planning Reinsurance Tax and **Performance** expense metrics considerations **Disclosures** 

Some common emerging themes and questions include

- Reviewing which markets to be in, and ideal corporate structures
- Careful management and allocation of scarce capital, and consideration of alternative funding sources
- ► The "right" set of metrics for managing the business, and the impacts on the business strategy
- ► The potential for competitive advantage or disadvantage under the new regulations given the different strategies, portfolios and structures of different companies and groups
- New business strategy and product development decisions
- A rethinking of the role of investment profits as a core competence of insurance companies
- ▶ A new approach to risk mitigation
- ► The fear of moving too fast in advance of regulation, versus the risk of being "behind the game" and out of line with key competitors
- ▶ People with the right skills & capabilities

## Commercial impact: Asset allocation - Efficient frontier

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



Page 9

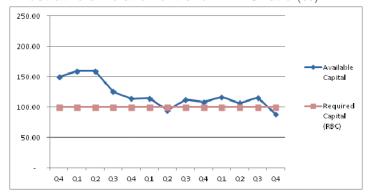
Regulatory Risk & Capital Changes in Asia-Pacific



#### **Commercial impacts – capital management**

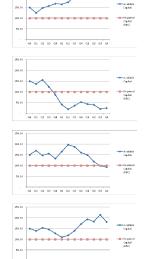
A market consistent risk based capital regime is "by design" a volatile regime

#### 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

Page 11

Regulatory Risk & Capital Changes in Asia-Pacific



### 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

#### Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction
and advisory services. Worldwide, our 167,000 people are
united by our shared values and an unwavering commitment to
quality. We make a difference by helping our people, our clients
and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com.

© 2013 EYGM Limited. All Rights Reserved. FEA no. 00000190 ED None

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither the EYGM Lumited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.