

# **CLRS ComFrame Sept 2014**

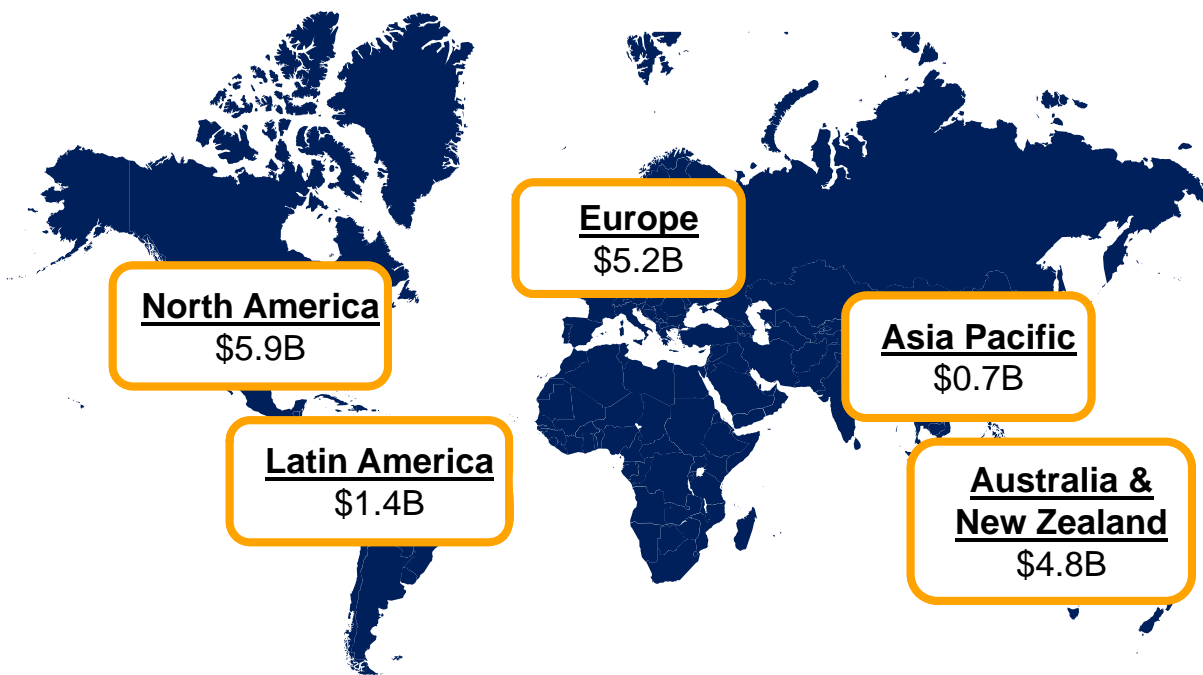
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**QBE North America**



# QBE Insurance Group

*QBE has a strong global presence, with North America as its largest market.*



All figures in USD

## QBE

- One of the 20 largest global insurers
- Operations in all key global insurance markets
- \$18B GWP worldwide in 2013 (\$5.9 GWP in US)
- Offices in 43 countries with 13,500 employees worldwide
- Ranked 411<sup>th</sup> on Forbes Global 2000 list of public companies
- Rated A by A.M. Best and A+ by S&P

# **ComFrame NAIC & APRA Views**



# US/NAIC Viewpoint

- State insurance regulators have concerns about the timing, necessity, and complexity of developing a global capital standard given legal and regulatory differences around the globe, they intend to remain fully engaged in the process.
- The following gives a guide to their general viewpoint:

# Capital Standards

- A single uniform capital standard not a ‘silver bullet’ solution but should be used as one of many tools.
- ICS development should reflect risk characteristics of the insurance business model and its supervision.
- Risks in insurance products, even in the same business line may differ significantly between jurisdictions – applying the same risk charge for that business line may lead to incorrect conclusions of the relative capital strengths of IAIGs.

# Fungibility of Capital

- US Regulators concerned with the assumption of fungibility of capital within an insurance group. Capital flows between entities within an insurance group should not jeopardize the financial strength of any entity within the group. Whatever is implemented at a group level should be in addition to jurisdictional requirements. That is, requirements should be in addition to US RBC and not replace these requirements.
- Other jurisdictions may allow greater fungibility if they believe appropriate.
- International standards should not favor one regulatory approach over another, rather should focus on group as a whole.

# Regulatory Diversity and Coordination

- Diversity of regulatory approaches provides stability, even while greater consistency is achieved. Over-reliance on one capital standard or approach could actually increase systemic risk as all insurers and regulators model their behavior around the same standards.
- Supervisory colleges should serve as central coordinating forum for setting and assessment of group capital standards. Group-wide supervisor must communicate and coordinate with other jurisdictions.

# Accounting and Valuation, Timelines

- There are major differences among jurisdictions in accounting systems and approaches to valuation of assets and liabilities. Development of ICS, BCR and HLA will need to take this into account.
- IAIS members should recognize that developing these in a manner that works for all jurisdictions will require significant resources over many years. Timelines should be driven by available resources and achieving high-quality results.



## Backstop (Basic) Capital Requirement (BCR)

- Goal of BCR is to develop a common metric across various jurisdictional capital requirements at the group level for purposes of applying HLA, which will be the additional capital requirements for G-SIIs.
- BCR will need to balance simplicity with need for risk-sensitivity given short timeframe available. Factor based approaches or leverage ratios should be considered.

# Higher Loss Absorbency (HLA)

- HLA should be developed for application to G-SIIs as a way to address systemic risk;
- Given this specific purpose it should not be applied to insurers which are not designated as systemically important.
- As it is specific activities that are the focus of assessing potential systemic risk within the insurance sector, not traditional insurance business itself, the HLA should be developed to address those specific activities

# Insurance Capital Standard (ICS)

- ICS for IAIGs should be in addition to jurisdictional requirements => RBC at a legal entity level would still apply, ICS would augment existing approach.
- Adequate capital at group level is important, this is not a substitute for adequate capital at the legal entity. ICS should not be used to adjust jurisdictional requirements.
- Primary objective of ICS should be to enhance efficacy of capital requirements to help facilitate solvency systems in developing markets to be on par with, though not necessarily identical to such systems in developed markets.

# NAIC – RBC - SMI

- NAIC is adjusting Risk Based Capital standards to be more risk sensitive as part of its Solvency Modernization Initiative (SMI), areas of focus include:
  - › Introduction of catastrophe charge, R6 and R7
  - › Introduction of an operational risk charge
  - › Having a credit risk charge more sensitive to the specific counterparty's credit risk
- Additionally, NAIC introducing ORSA requirements.

# APRA

- APRA (Australian Prudential Regulation Authority) is an active member of IAIS (International Association of Insurance Supervisors).

# APRA Viewpoint

- BCR is intended to be the foundation for HLA for G-SIIs.
- Australia does not have any of these, however, there is a possibility that the BCR will be applied more broadly in the future (e.g. IAIGs) so it could have implications in Australia.
- Perceived that ICS may be initially set at a level below LAGIC (Life and General Insurance Capital) requirements.
- LAGIC developed having regard to S-II thinking and probably vice versa

# APRA Viewpoint

- ICAAP (Internal Capital Adequacy Assessment Process) introduced as part of the LAGIC requirements (analogous to ORSA in EU and US)
  - › Requires ICAAP summary statement, a high-level document setting out a summary of the various processes
  - › An annual ICAAP report to APRA, discussing how the company has applied the ICAAP over the past year, the capital position and a projection of the capital position over the next three years

# APRA Viewpoint

- LAGIC:
  - › embed practical aspects to ensure standards are applied appropriately.
  - › Enhance disclosure.
- ICAAP:
  - › Critical component of LAGIC
  - › Focus on development of summary statements and improvement in use of stress-testing
- Focus on Quality of Risk Management, Governance and Culture



# APRA Viewpoint

- D-SIIs (Domestic systemic importance)
  - › After first dealing with global systemic importance in the banking industry, the FSB (Financial Stability Board) has turned its attention to domestic systemic importance.
  - › Recovery and Resolution planning are viewed in a positive light, independent of any formal D-SII requirements

# APRA Viewpoint - Conclusions

- Domestic solvency and supervisory renovations largely complete with no significant changes in pipeline.
- Significant international activity expected over the coming years but this is not anticipated to have a great impact on Australia in the next few years.

# Glossary

- APRA – Australian Prudential Regulation Authority
- NAIC – National Association of Insurance Commissioners
- ICS – Insurance Capital Standard
- RBC – Risk Based Capital
- IAIG – Internationally Active Insurance Group
- BCR – Basic (backstop) Capital Requirement
- G- SII – Global Systematically Important Insurer
- HLA – Higher Loss Absorbency
- SMI – Solvency Modernization Initiative
- IAIS – International Association of Insurance Supervisors
- ICAAP – Internal Capital Adequacy Assessment Process
- FSB – Financial Stability Board
- D-SII – Domestic Systemically Important Insurer