

RBC2 and beyond: Global trends in capital requirements

Actuarial Society of the Philippines

17-18 November 2016

A reminder of the conference theme...

REINFORCING FOUNDATION

Deepening Fellowship

Having Fun



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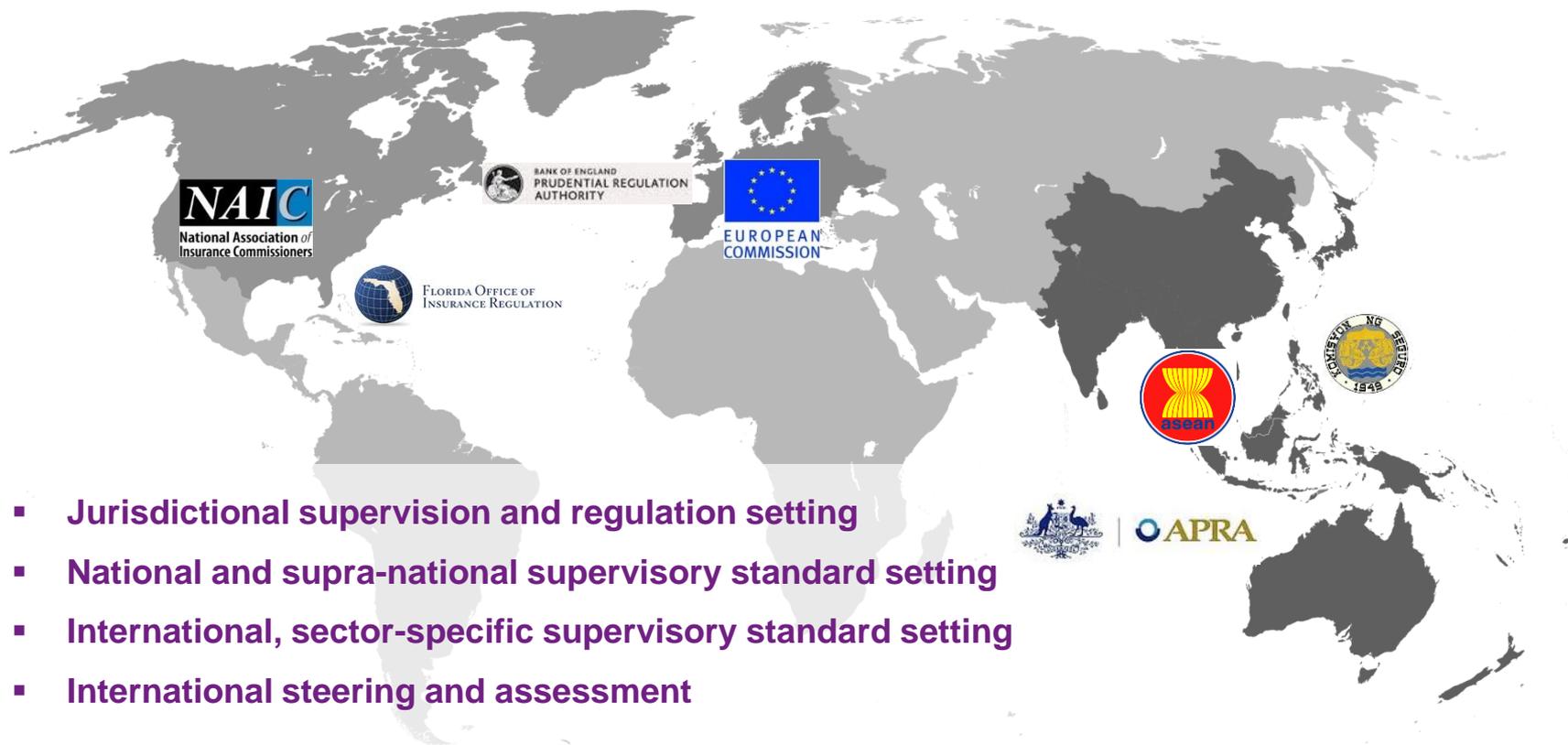
Assessing the opportunities

Questions

An aerial photograph of a rural landscape featuring several large, vibrant green agricultural fields. The fields are separated by dark, narrow hedgerows or stone walls. In the lower right corner, a small cluster of buildings, including a grey-roofed structure, is visible. The image is partially obscured by five white rectangular redaction boxes: a large one in the top right, a horizontal one in the center, a vertical one on the right edge, and two smaller ones in the middle right area.

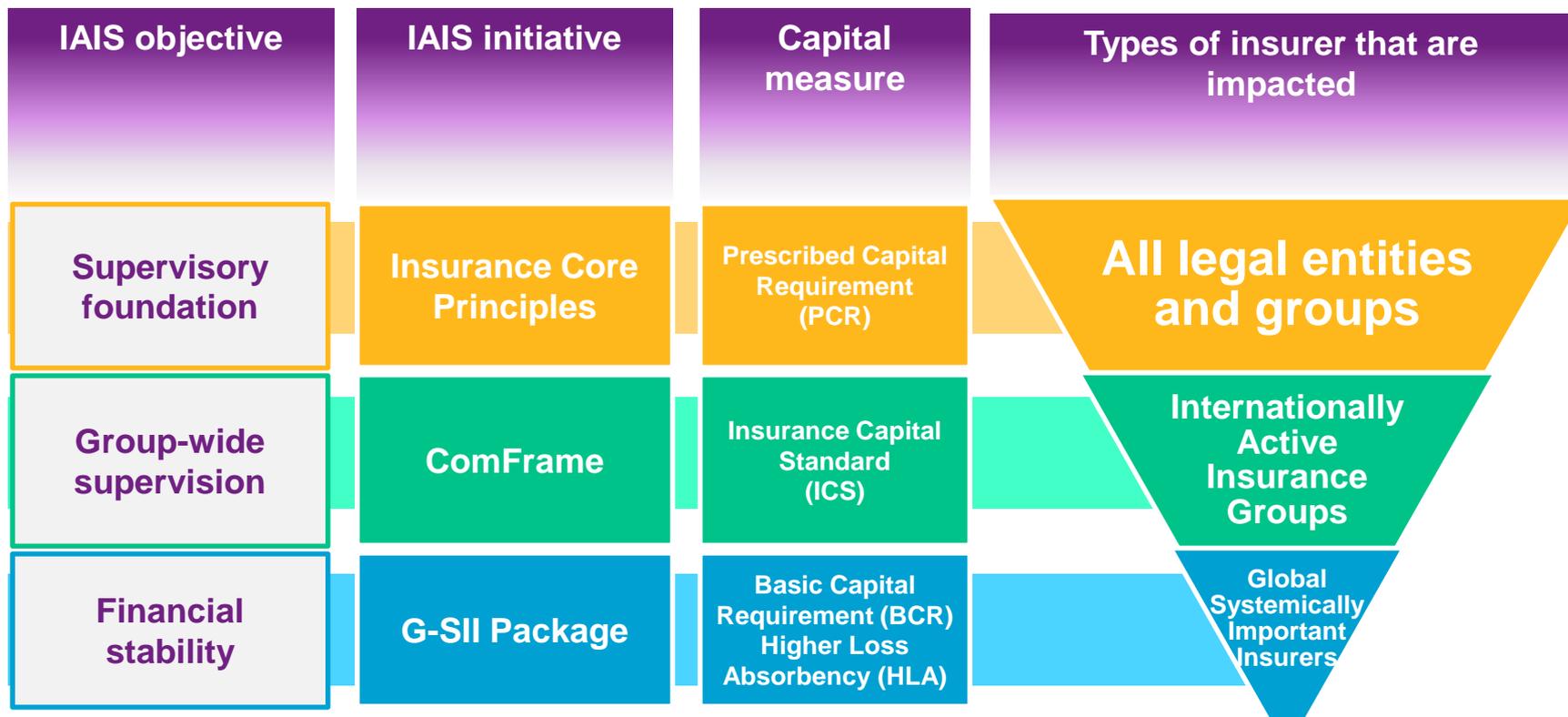
Understanding the global dynamics

Influencers in regulatory development



- Jurisdictional supervision and regulation setting
- National and supra-national supervisory standard setting
- International, sector-specific supervisory standard setting
- International steering and assessment

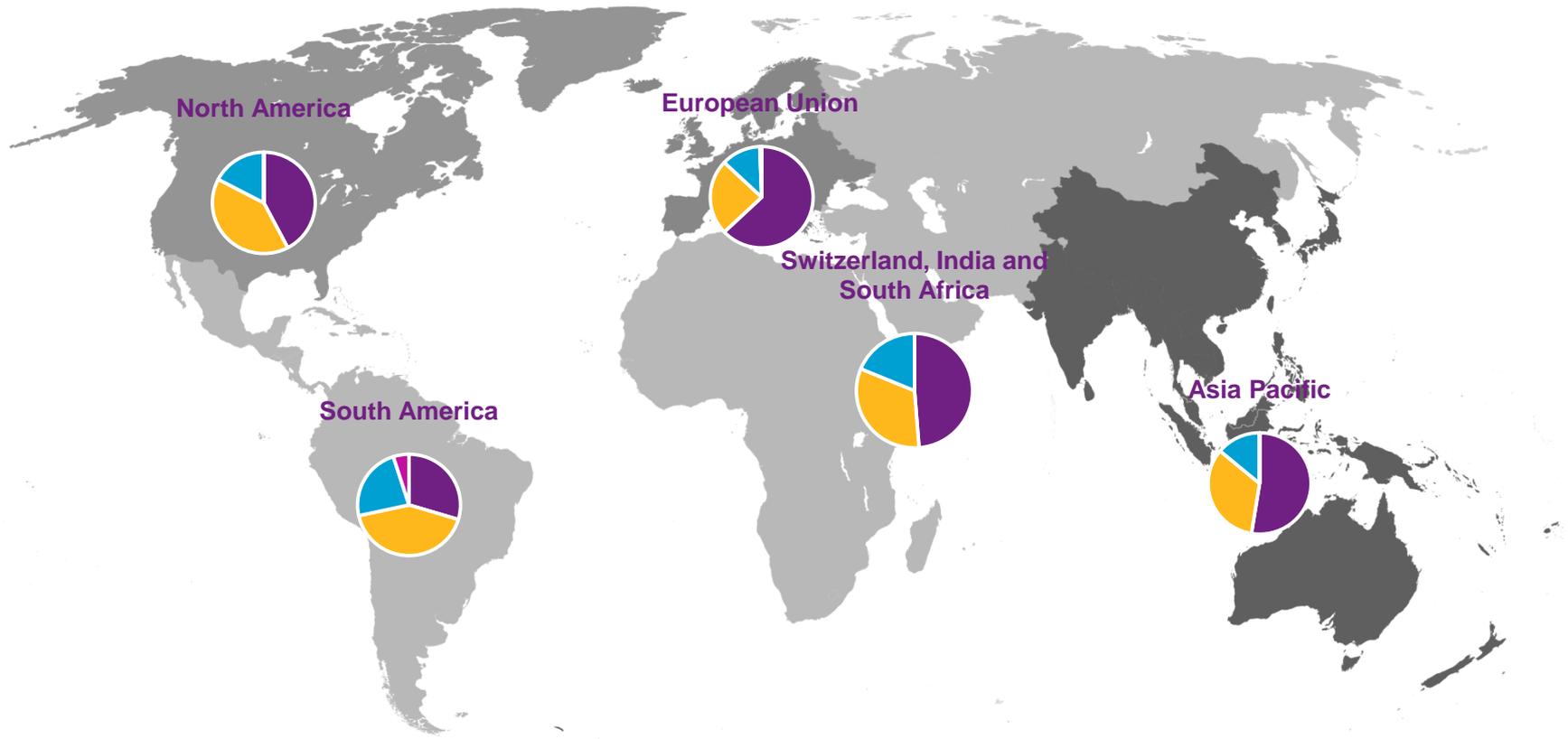
IAIS objectives and initiatives



Source: International Association of Insurance Supervisors

Insurance sector Financial Sector Assessment Program

■ Observed ■ Largely Observed ■ Partly Observed ■ Not Observed ■ Not Applicable



Source: Willis Towers Watson analysis of IMF and World Bank reports (available at <http://www.fsb.org/about/leading-by-example/participation/>)

Asia Pacific



■ Largely Observed ■ Partly Observed

South Korea RBC
Implemented 2011

C-ROSS
Implemented 2016

Hong Kong RBC
Development underway

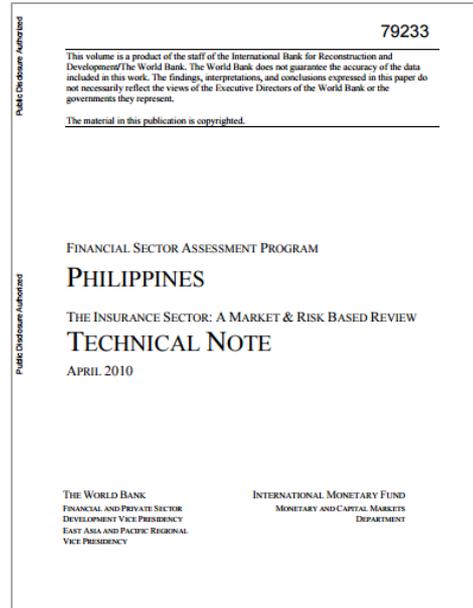
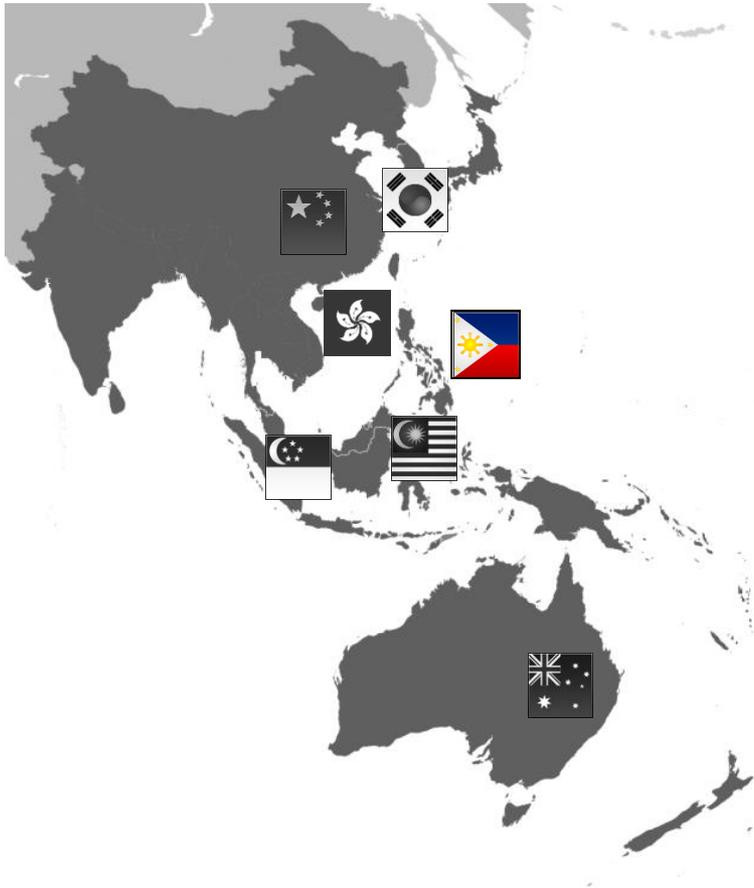
Singapore RBC2
Expected implementation 2017-18

Malaysia RBC
Implemented 2009

LAGIC
Implemented 2013

IFRS17
Basel III
Solvency II
ICPs
ICS

The Philippines



April 2010

“... the insurance sector [is] in a nascent stage of development.”

“Investment linked “variable” business has grown in relevance over the last few years”

“... it would be useful to further advance a more risk based approach to supervision.”

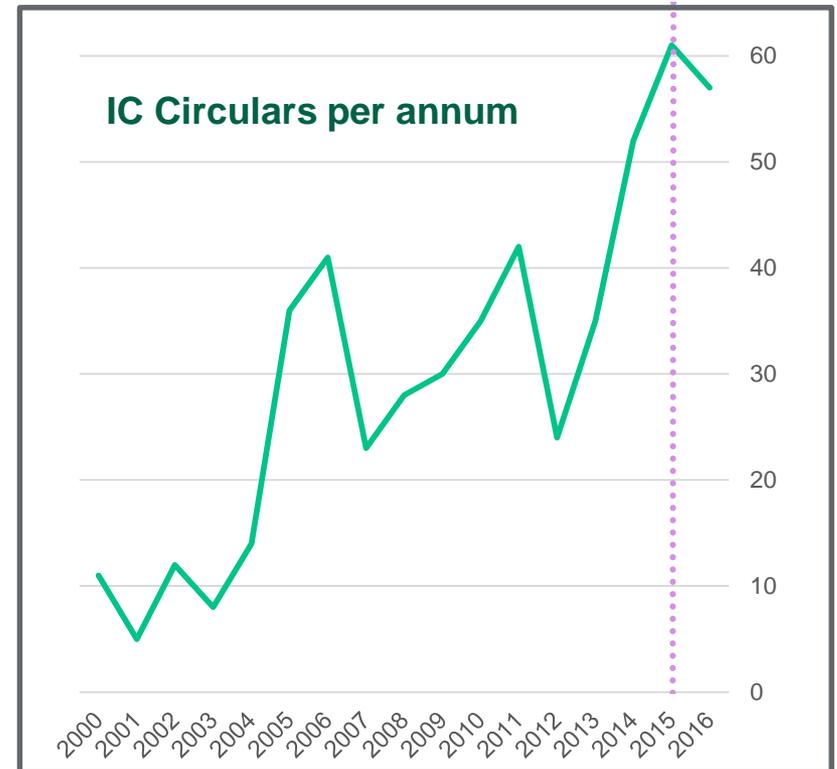
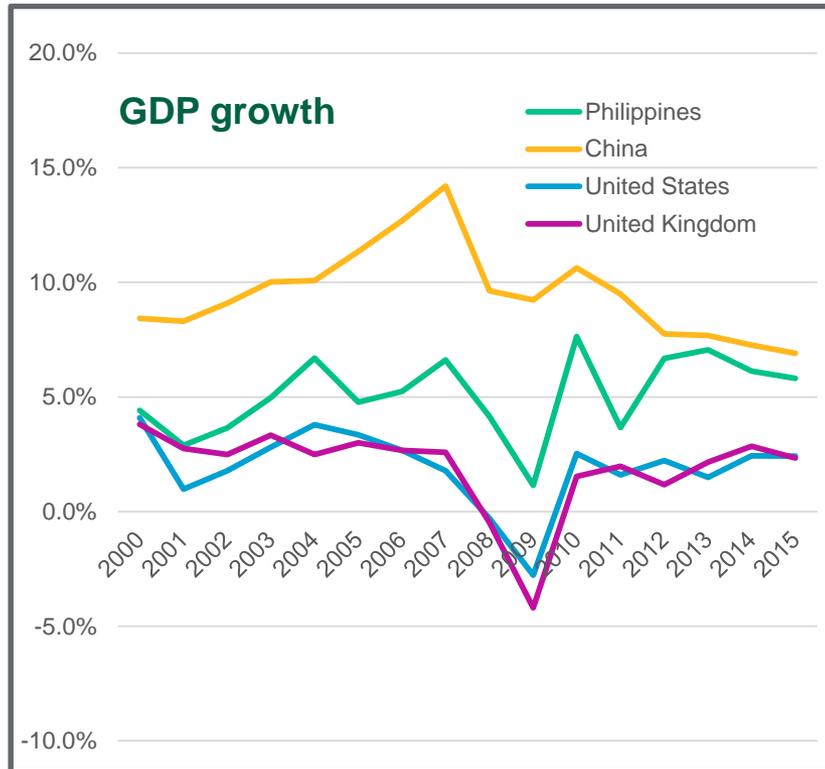
Source: World Bank (<https://openknowledge.worldbank.org/handle/10986/16058>)

Looking to the future



Accelerated growth in the Philippines

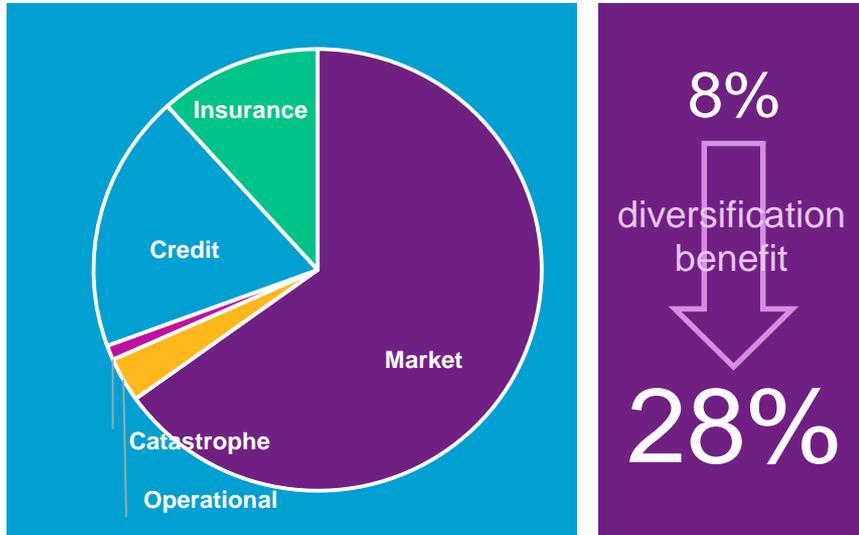
Two charts



A new era of capital requirements in the Philippines

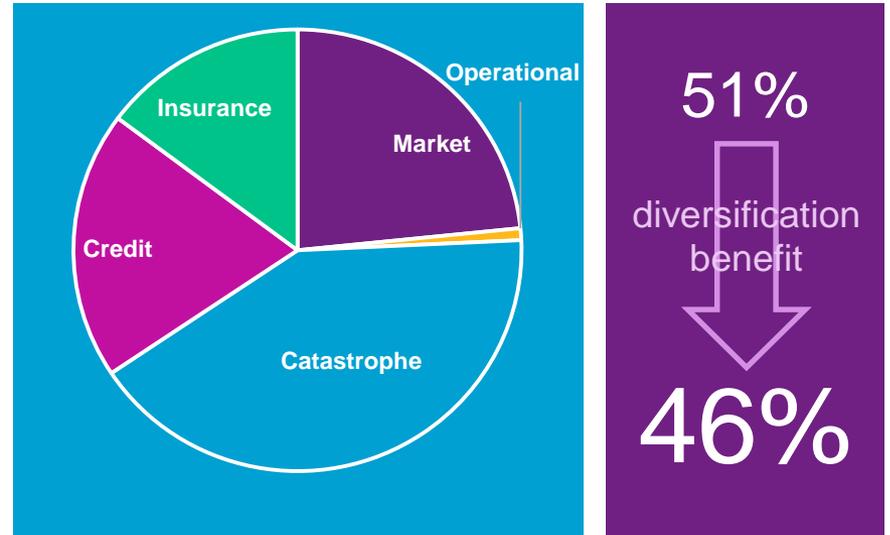
IC's Final QIS Report

Life



Six companies with CAR less than 100%

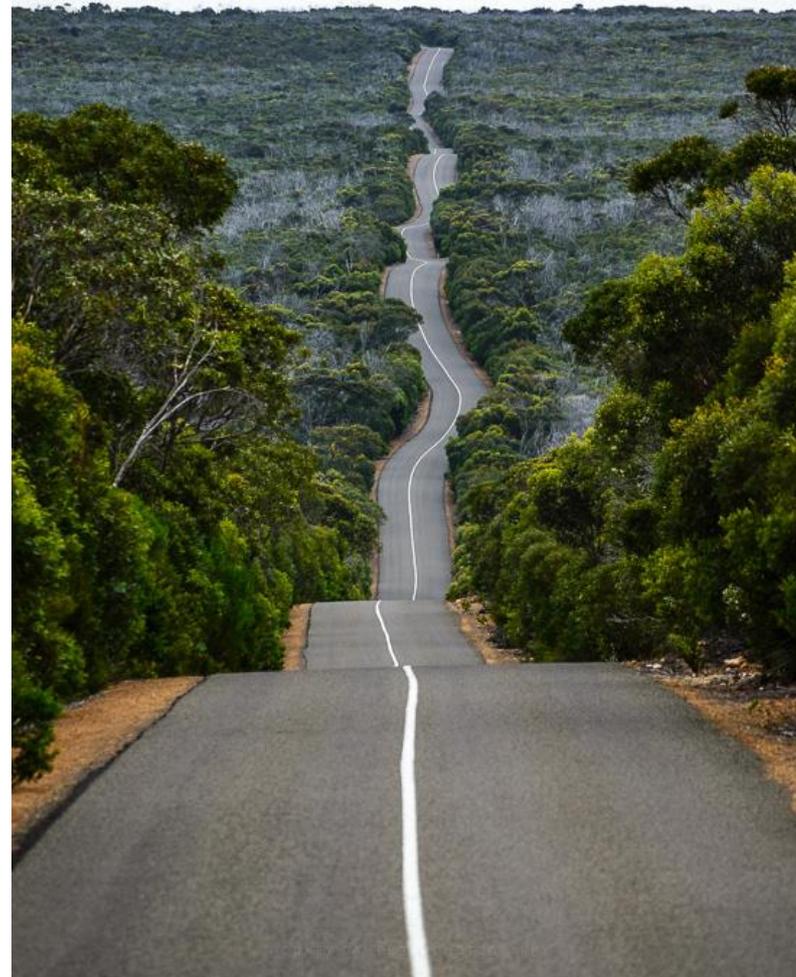
Non-Life



Thirteen companies with CAR less than 100%

Potentially a long road ahead

- Consistency across reporting
- Forward-looking and risk-based capital
- Regulatory oversight and co-operation
- Three-pillar capital framework



Decisions to be made



- How much extra capital do I need?
- Where is there inefficient use of capital?
...or where are the best returns?
- What actions can I take to release trapped capital?
...or increase diversification benefits?
- Which risks result in the largest capital requirement relative to their return?
...and how can this position be improved?
- How can the firm raise capital at an acceptable price?
...and what are the benefits-costs trade-offs?
- Does the current environment for capital raising or risk transfer present particular opportunities?

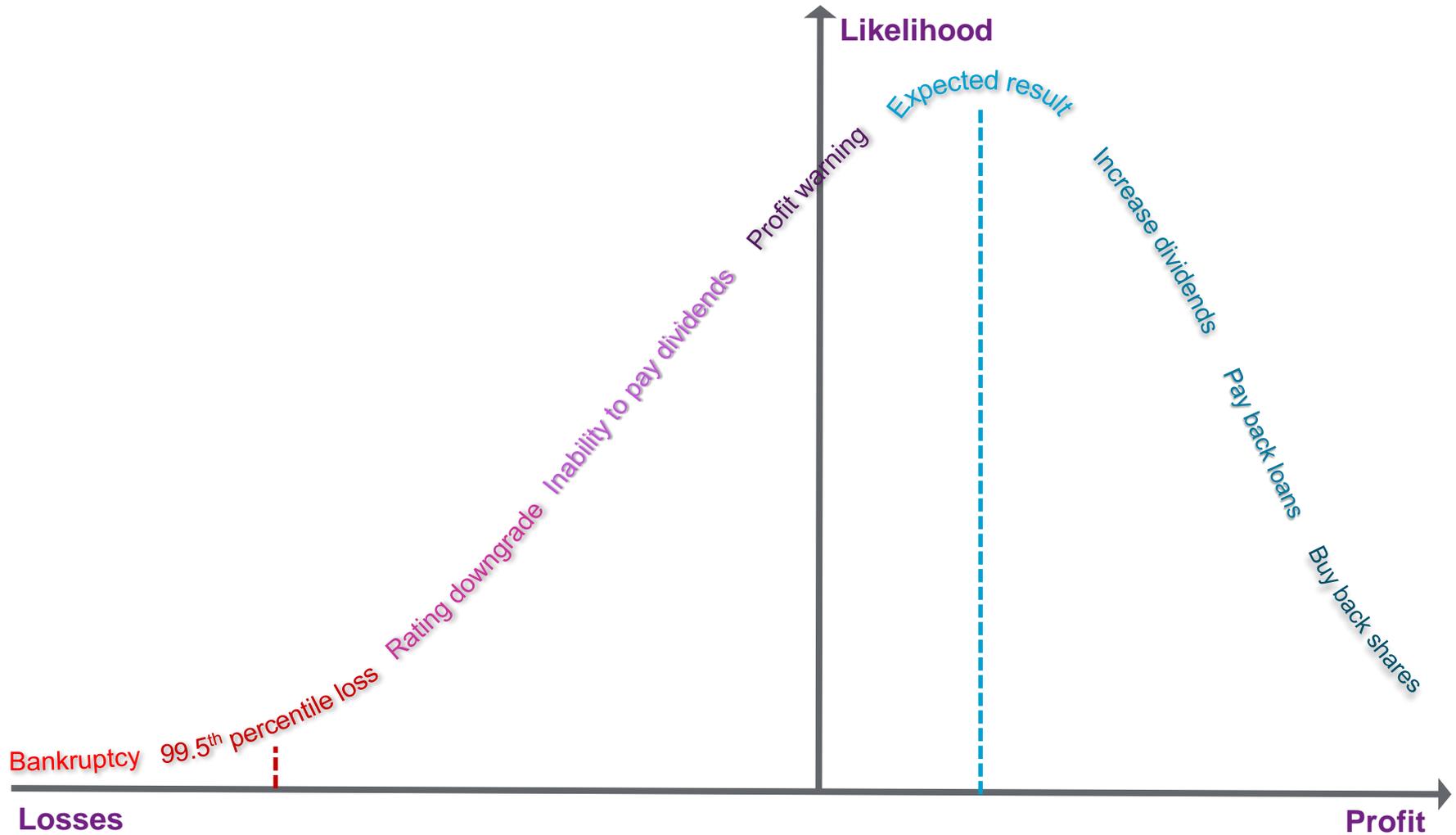
An aerial photograph of a dense forest with various shades of green. Several white rectangular overlays are placed on the image: a large one in the top right, a horizontal one in the middle left, a small square one in the middle right, and a vertical one on the far right edge. A black box in the top left contains the text 'Assessing the opportunities'.

Assessing the opportunities

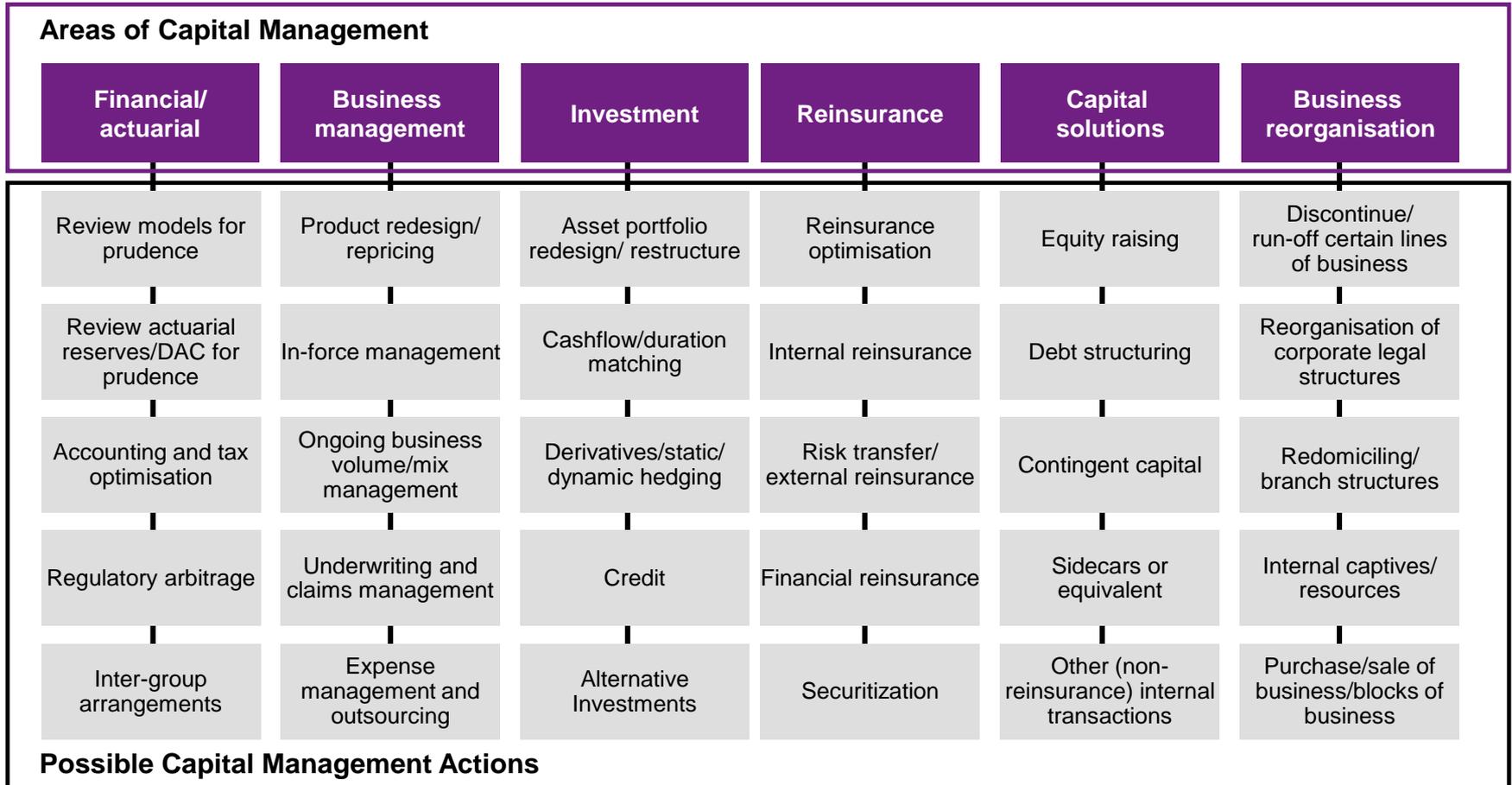
Competing interests of stakeholders



Measuring risk and opportunity



Capital management toolkit



Increasing Time – Cost – Complexity

Examples from leading insurance companies

Allianz

- Reduce sensitivity to market movements
- Shifting away from capital intensive products
- Increased capital allocation discipline
- Improve capital fungibility / un-freeze locked-in capital

AXA

- Align capital consumption with expected returns
- Increased pooling of risks
- Reduce local excess capital to maximise upstream
- Lower capital consumption from new business

Generali

- Move to capital-light products
- Optimise cash generation from in-force portfolio
- Monetisation on in-force books

SCOR

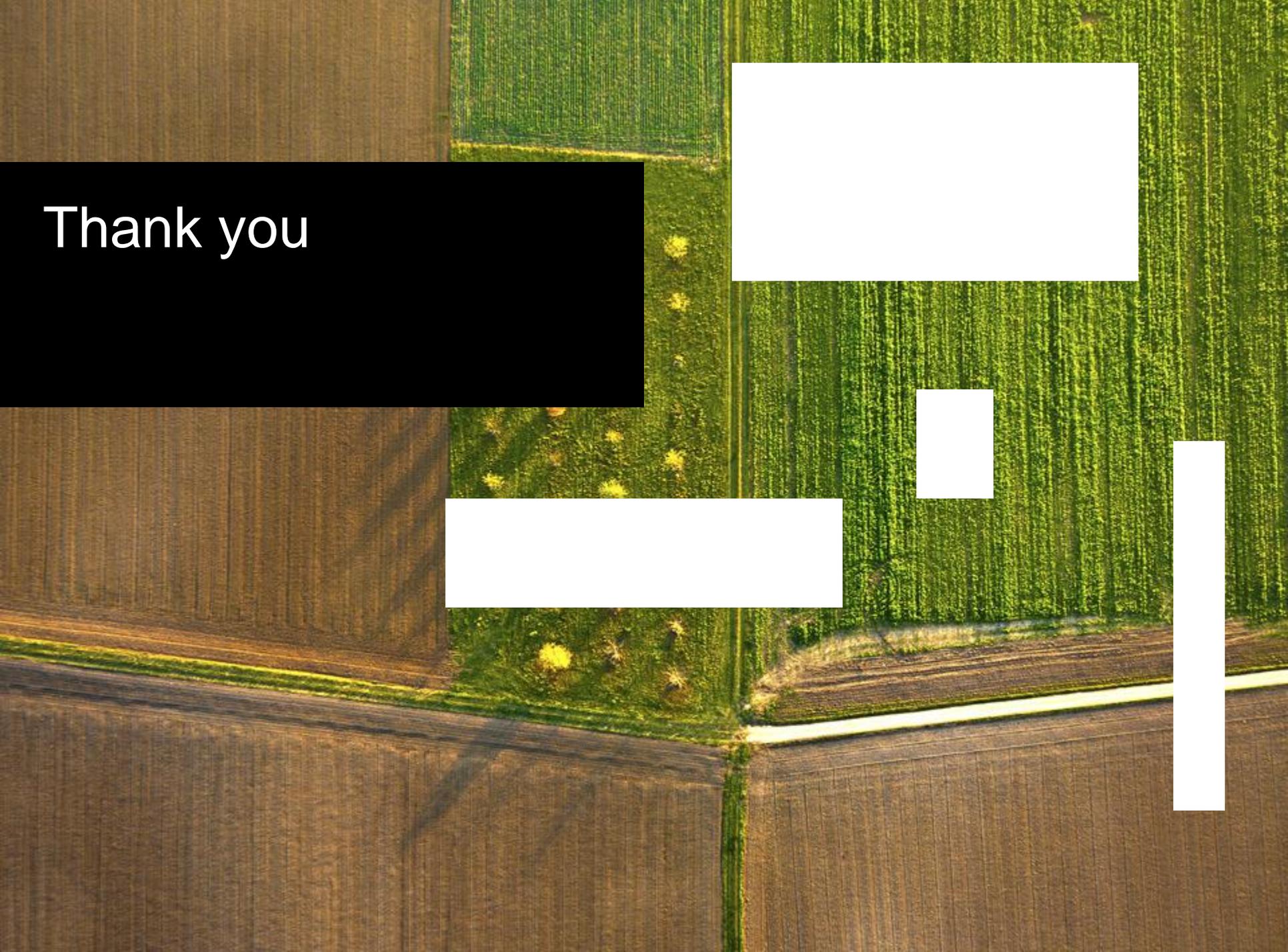
- Internal retrocession
- Use of collateral arrangements
- Internal loans / portfolio transfers

Zurich

- Disposal of UK annuity book
- Re-balance mixture of debt and equity capital
- Focus on products with shorter payback periods

The only way to make sense out of change is to plunge into it,
move with it, and join the dance.

Alan Watts

An aerial photograph of a rural landscape featuring a grid of agricultural fields. The fields are divided into several distinct sections: a large brown field on the left, a vibrant green field on the right, and a central strip of green field with scattered yellow wildflowers. A white road or path runs horizontally across the lower portion of the image. Several white rectangular overlays are placed on the image: a large one in the top right, a smaller one in the center right, a horizontal one in the center left, and a vertical one on the far right edge. A black rectangular box is positioned on the left side, containing the text 'Thank you' in white.

Thank you

Insights



Momentum gathers behind global regulatory measures

A global standard of capital is now materialising, but the degree to which it will help insurers remains unclear

Background

The International Association of Insurance Supervisors (IAIS) continues to test a capital standard for Internationally Active Insurance Groups (IAIGs), with a view to adopt an early version in 2017 and a more complete version in 2019, and has set out its proposals for the measures that will make Global Systemically Important Insurers (G-SIIs) hold higher levels of capital from 2019 (*Figure 1*). Together, they herald a new era of insurance regulation, where international standards take centre stage.

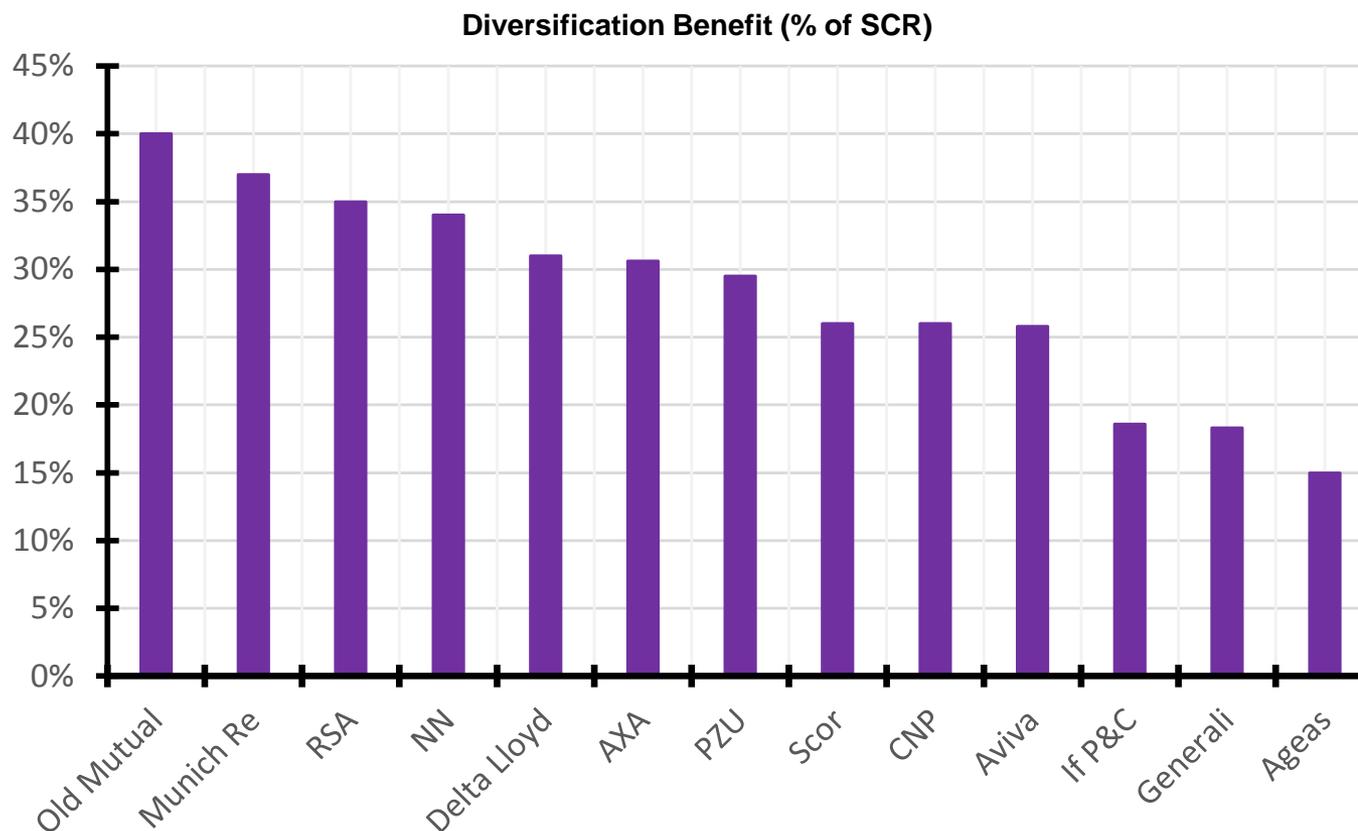
Moreover, the IAIS has set an ambitious schedule to develop IAIG and G-SII measures. The Basic Capital Requirement (BCR) and Higher Loss Absorbency (HLA) measures were finalised in Q4 2014 and Q4 2015, respectively, and the first version of the Insurance Capital Standard (ICS) is due to be finalised by mid-2017.

IAIS plans: Willis Towers Watson perspectives

Finding common ground

The IAIS has challenging work to do. The risks facing (re)insurers in any particular jurisdiction are a function of

Up-streaming of cash and capital – in an insurance group



Source: Morgan Stanley.

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