CERAVISION

where foresight

meets insight

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Good (and not so good) capital management
The risks of a poor process

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Capital management intro

The elements of a good process are universal

Using capital management as an example

- Mature, but still developing in areas
- Some elements critical to whole business

Aus-based learnings

- ICAAP = capital management
- APRA = regulator

Focus of this session:

Key learnings & thoughts (from industry surveys)	Examples & anecdotes of best (and not-so-best) practice	Where the industry is focusing and where it's heading

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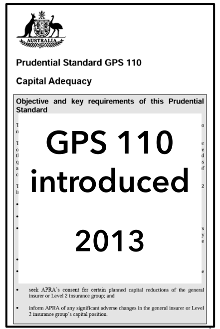
Timelines


Prudential Standard GPS 110
Capital Adequacy
Objective and key requirements of this Prudential Standard

GPS 110 introduced

2013

2014 GI Industry Survey (first)

2014

2020 GI Industry Survey

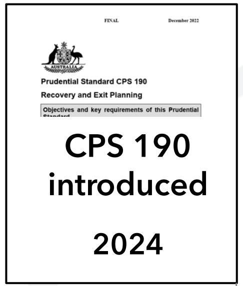
2017

2020 GI Industry Survey

2020

2023 GI Industry Survey (latest)

2023


Prudential Standard CPS 190
Recovery and Exit Planning
Objectives and key requirements of this Prudential Standard

CPS 190 introduced

2024

2025 GI Recovery Plan Survey (first)

2025

General Insurance

- *ICAAP Reviews* – over 15 general insures/reinsurers, including ORSA reviews in Singapore & Hong Kong.
- *Industry Surveys* – every 3 years since 2014.
- *Recovery Plan Survey* – first in 2025.
- *Discussions with APRA* – on ICAAP expectations, outlook & importance.

Other industries:

Life Insurance – similar regular Industry Surveys & ICAAP Reviews.

Private Health Insurance – HPS 110 introduced 2023, Readiness Reviews and ICAAP Reviews since, first Industry Survey planned 2025.

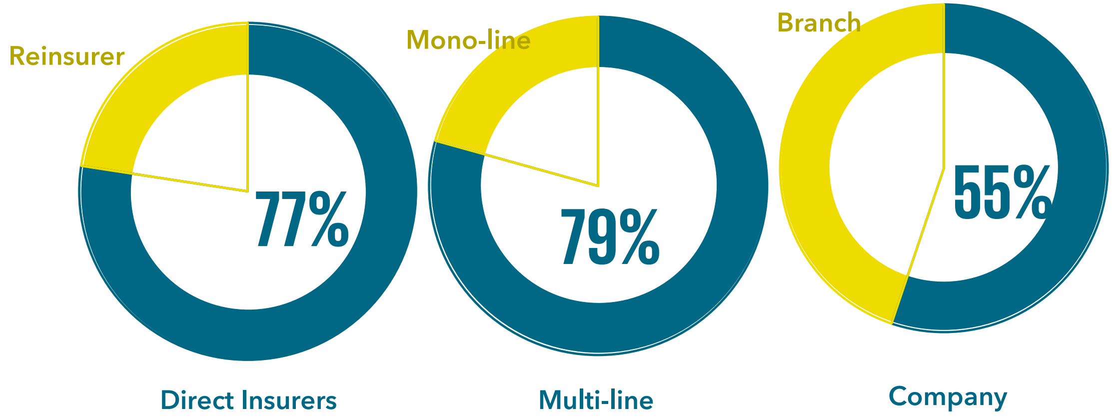
Survey participant profiles

2023 ICAAP survey

29 General Insurers

75% Total Industry Premium

KMPG's 4th Survey of the GI market

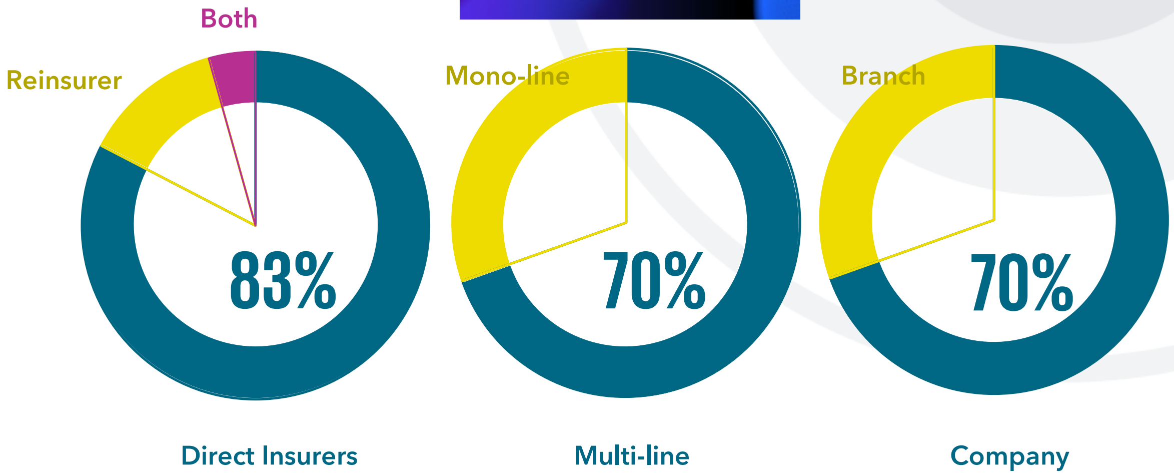


2025 Recovery Plan survey

23 General Insurers

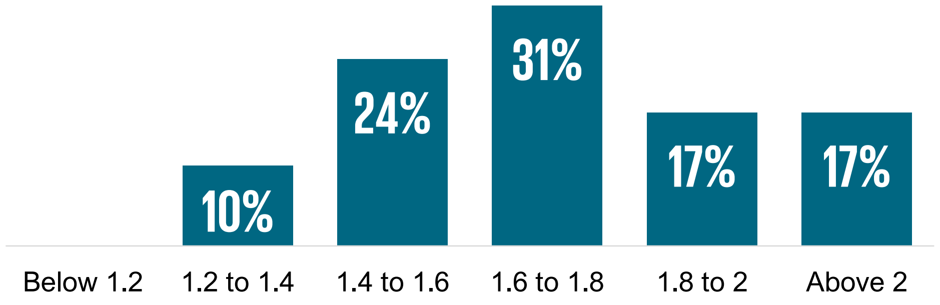
70% Total Industry Premium

KMPG's 1st Survey of the GI market



1. An Explainable Basis

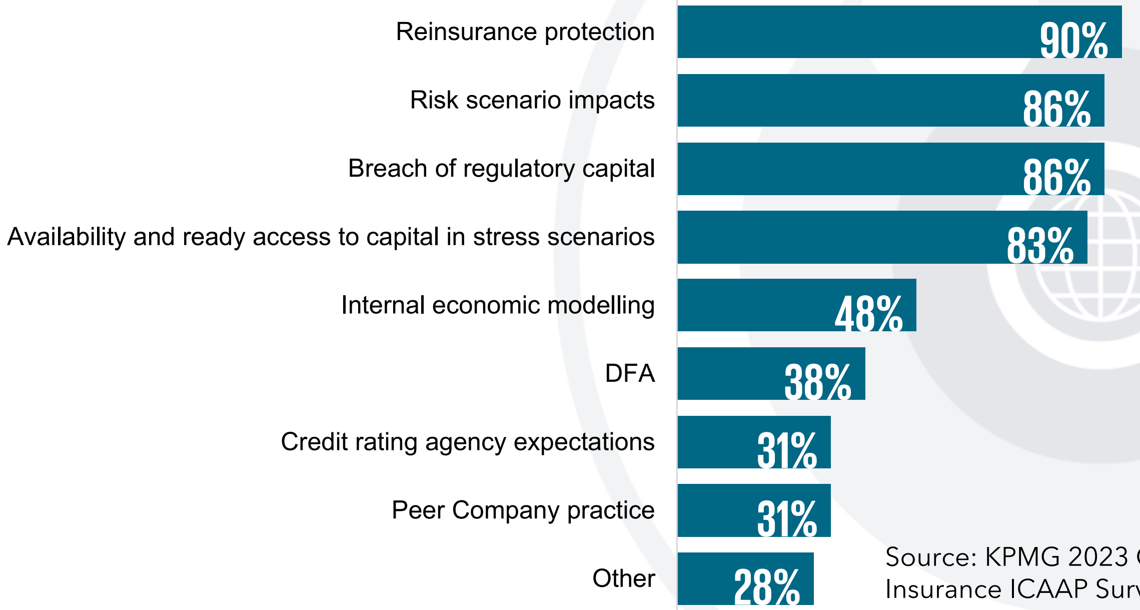
Target capital (% of MCR)



times minimum capital requirement

Source: KPMG 2023 General Insurance ICAAP Survey

Target capital factors – quantitative vs qualitative



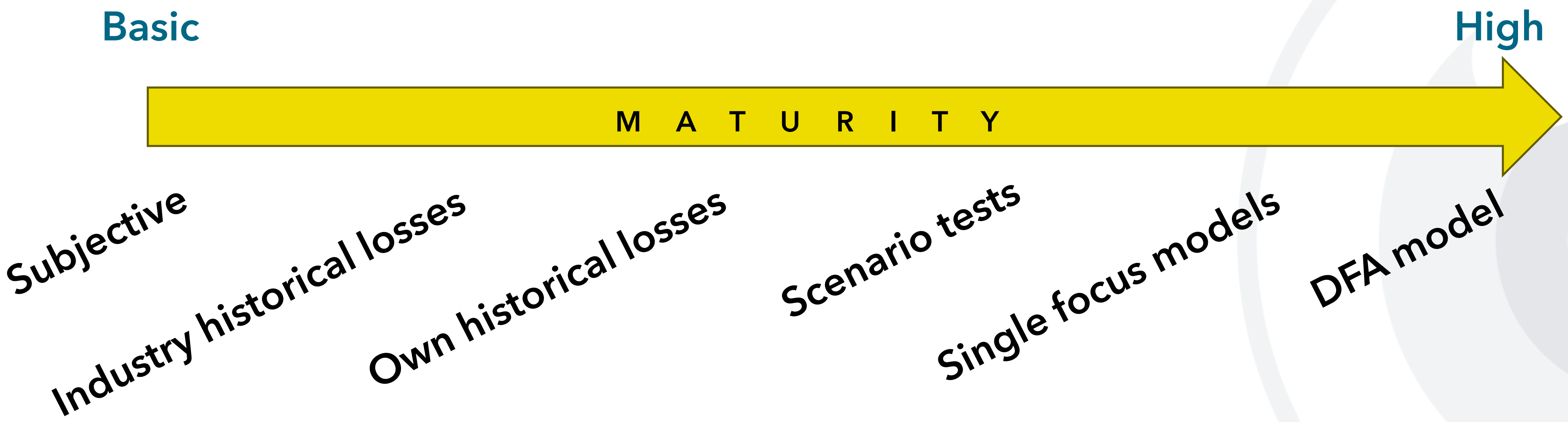
Source: KPMG 2023 General Insurance ICAAP Survey

Learning 1:

Have an **<u>explainable basis</u>** for targets or thresholds.

Having sophisticated models is just a bonus.

1. An Explainable Basis

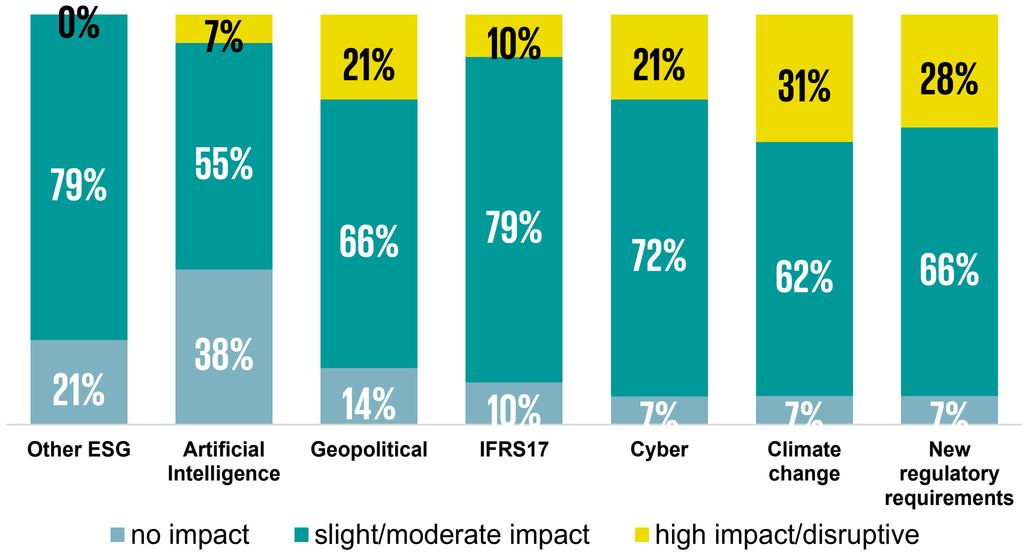


To think on…

Can you **justify** your target or threshold? Where are you on the **scale**?
Is the justification **reviewed regularly**, or was it done 10+ years ago in a document you can't find?
What about your climate targets, responsible persons under FAR, key operations / suppliers under CPS 230, etc?

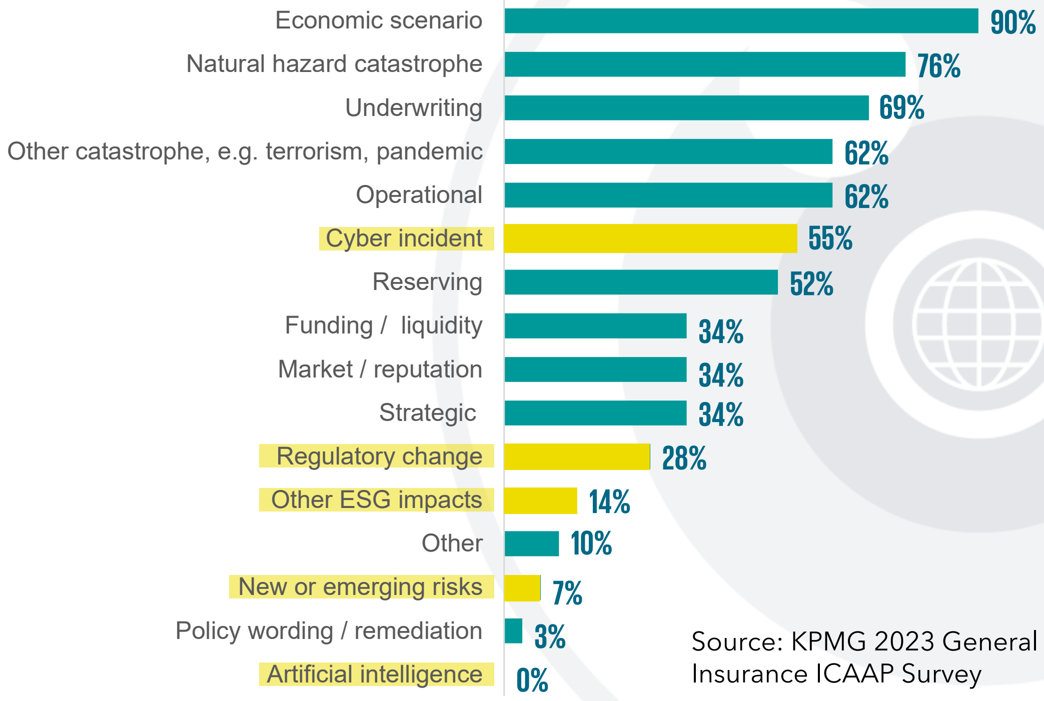
2. Emerging risks & scenarios

Impacts of emerging risks over the next 3 years



Source: KPMG 2023 General Insurance ICAAP Survey

Risks covered in scenario testing



Source: KPMG 2023 General Insurance ICAAP Survey

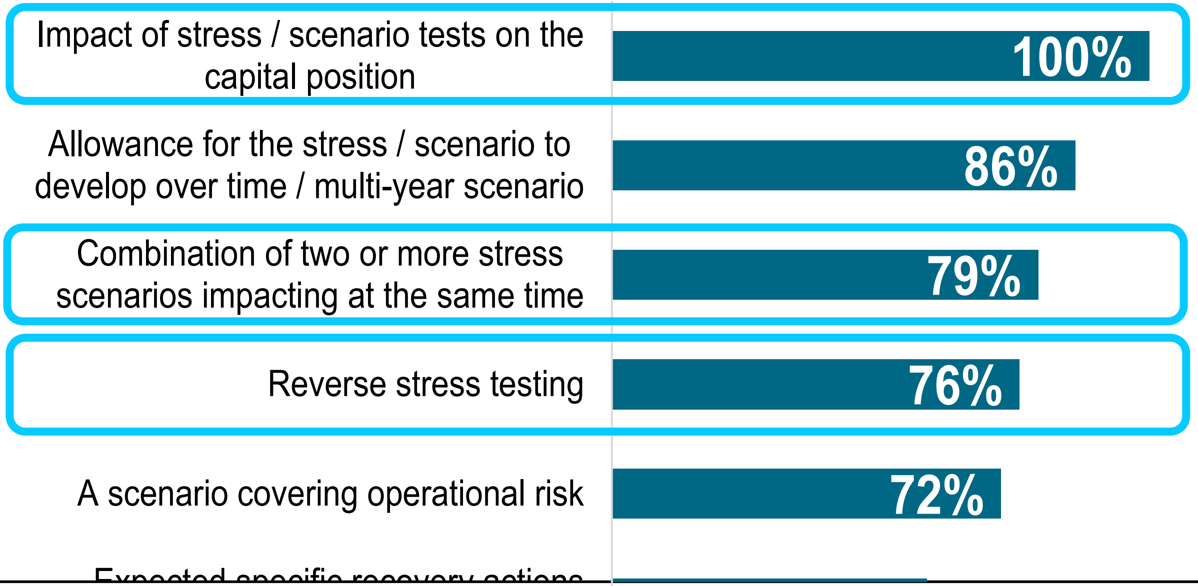
Learning 2:

Have a **robust approach** to considering emerging risks.

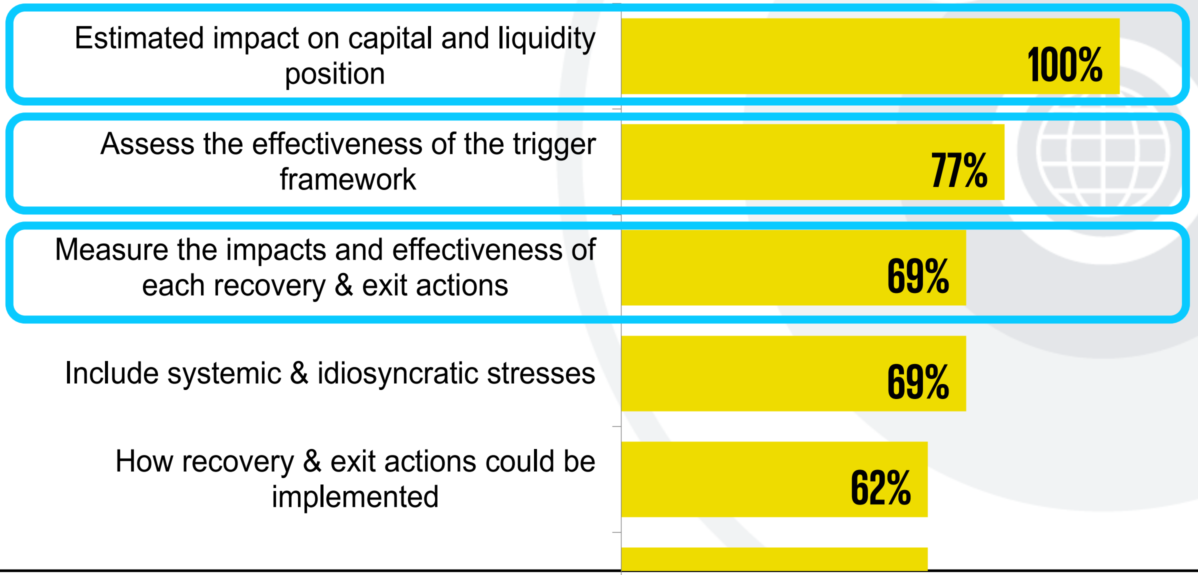
Scenarios are more useful, more so when they go **beyond the impact**.

2. Emerging risks & scenarios

KPMG 2023 General Insurance ICAAP Survey



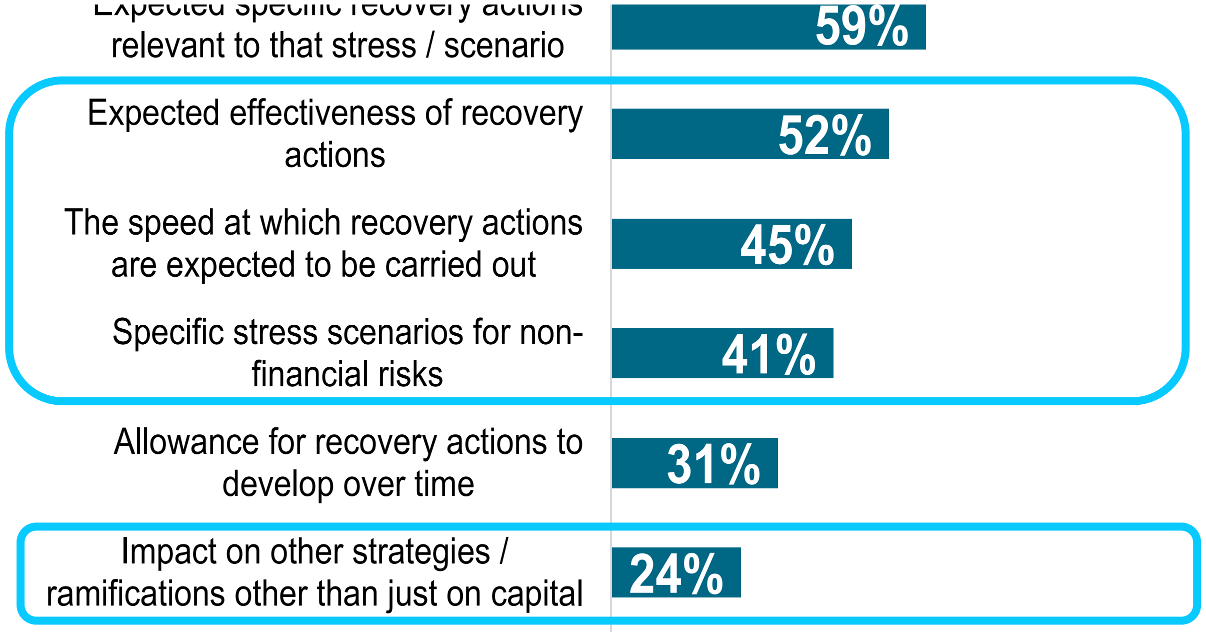
KPMG 2025 General Insurance Recovery Plan Survey



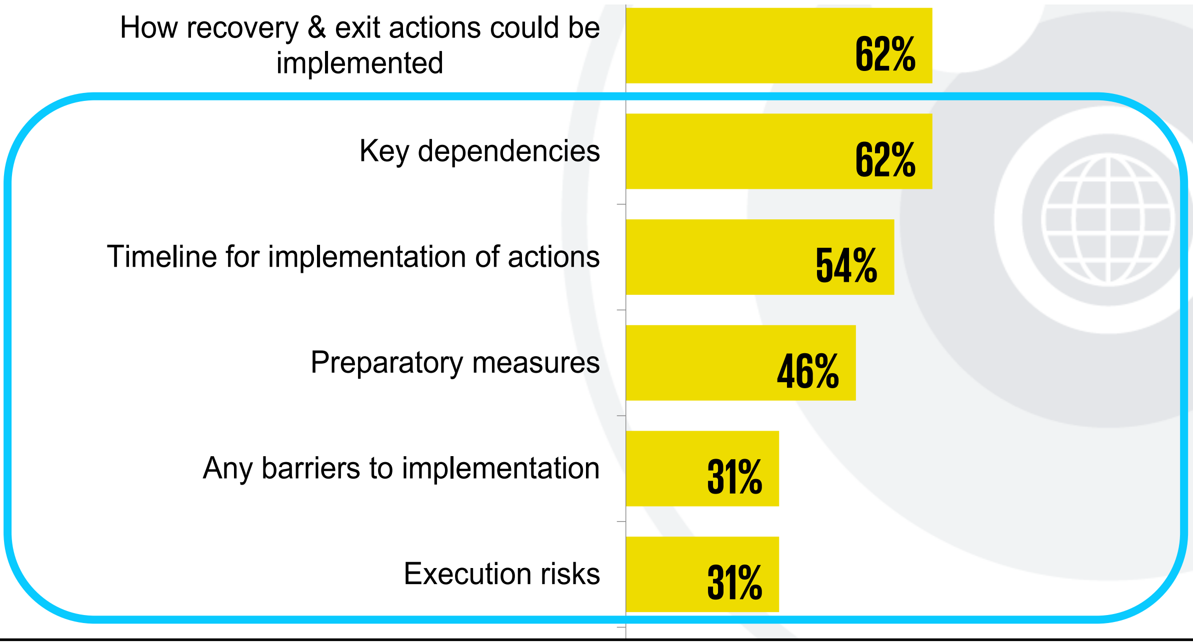
Features of stress & scenario testing

2. Emerging risks & scenarios

KPMG 2023 General Insurance ICAAP Survey



KPMG 2025 General Insurance Recovery Plan Survey



Features of stress & scenario testing

2. Emerging risks & scenarios

To think on…

For your emerging risks, could you do a little more? Where are you on the **scale**?
Is emerging risk identification and awareness done by **one team**? Or **across the business**?
Does analysis focus on **impact alone**? What about secondary and reputation impacts, interrelatedness, use of experts, etc?

Poll Question:
Which of the following challenges are you currently seeing affect your organisation's risk and/or capital management?

Please answer by the end!

3. Board Involvement

The Board is well-informed and heavily involved

The Board is well-informed, regularly discusses and actively challenges management.

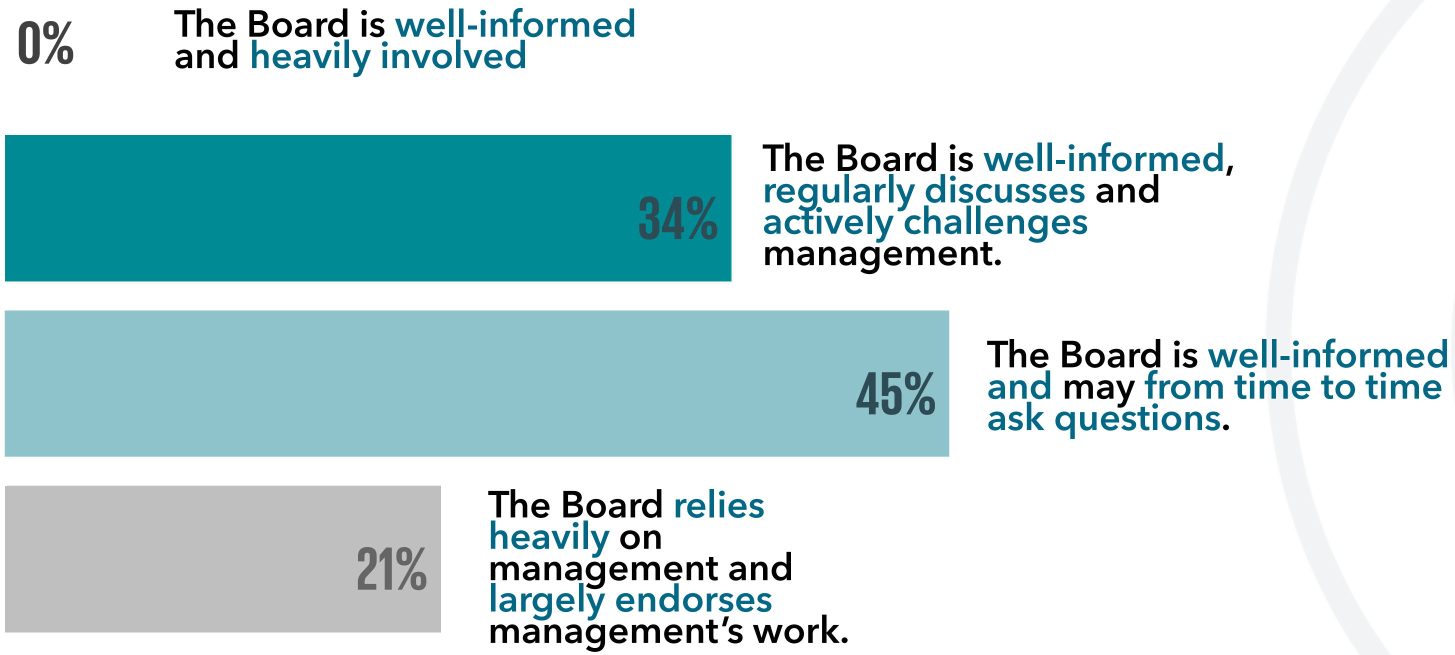
The Board is well-informed and may from time to time ask questions.

The Board relies heavily on management and largely endorses management's work.

Source: KPMG 2023 General Insurance ICAAP Survey

3. Board Involvement

Only **1 in 3** actively challenge ICAAP

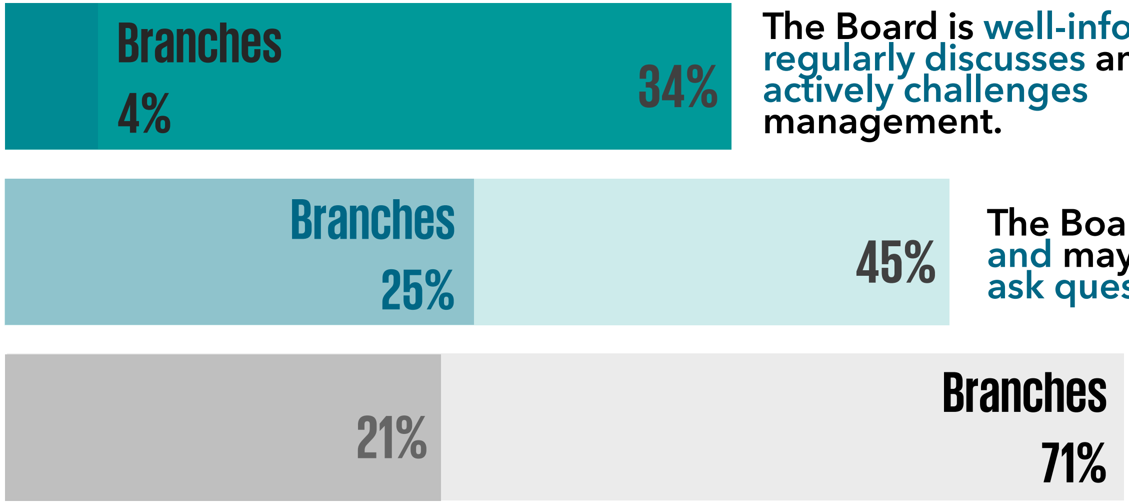


Source: KPMG 2023 General Insurance ICAAP Survey

3. Board Involvement

Only
1 in 25
actively
challenge
ICAAP

0% The Board is well-informed and heavily involved



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Source: KPMG 2023 General Insurance ICAAP Survey

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3. Board Involvement

Source: KPMG 2025 General Insurance Recovery Plan Survey

Learning 3:

Have a level of Board involvement **appropriate** to the topic.

Some aspects of a topic are more important to discuss than others.

3. Board Involvement

- Ownership & Oversight of ICAAP
- Setting risk appetite & capital targets
- Stress & scenario testing
- Review & challenge

To think on…

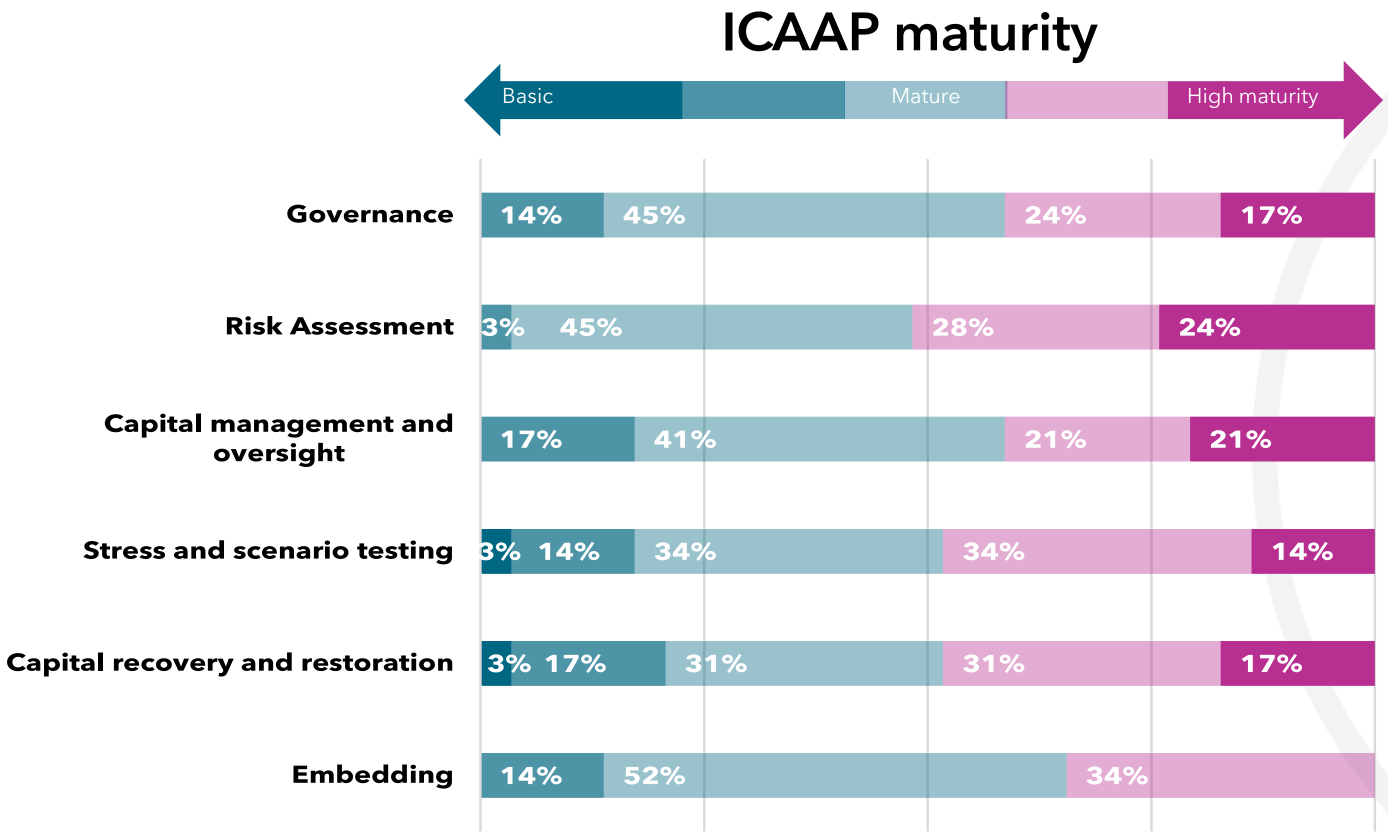
To what level is a topic **tabled vs presented vs discussed vs challenged**?

Does your Board spend **too much time discussing the detail**? Are they overwhelmed by **too much information**?

Is your Board involved in the **stress and scenario testing**? At what stage?

Is the Board's involvement **evidenced**?

4. Staying on top of developments



Learning 4:

Stay on top of developments, **keep up** with improvements.

Being proactive and thorough earlier means less issues later.

Summary of learnings

1. Have an explainable basis for targets or thresholds.
2. Have a robust approach to considering emerging risks.
3. Have a level of Board involvement appropriate to the topic.
4. Stay on top of developments, keep up with improvements.

THANK YOU

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