APRA Update

August 2011

Since our APRA capital standards review update in February, APRA has published its response to the industry feedback it received on its proposed changes. Here we bring you a brief update.

Changes

Substantial changes have been made in response to concerns expressed by the insurance industry. These changes focus on three areas:

- Reducing the overall increase in capital resulting from the initial proposals.
- Reducing the extent to which the prudential capital requirements remain high or increase in times of financial stress (what APRA calls the "pro-cyclic" nature of the proposals).
- Reducing the complexity of the proposals, particularly the Insurance Concentration Risk Charge and the Asset Risk Charge.

APRA has clearly summarised the changes in its published response, and we recommend that you review these changes and consider the impact on your business.

Plan Ahead...

Although APRA has attempted to soften the industry wide capital increase implied by its original proposals, some insurers may still experience significant adverse impacts. Importantly, you may be able to mitigate many of these impacts through careful planning. This may involve, for instance, a review of your investment strategy, reinsurance structures and the types of business you write.

...especially for ICAAP

We recommend that you begin preparing for the Insurer Capital Adequacy Assessment Process ("ICAAP") that will be required under the new standards. At the recent Institute of Actuaries of Australia's Insurance Capital Review Seminar in June 2011, APRA member Ian Laughlin emphasised that the quality of an insurer's ICAAP will be a key determinant on whether or not a supervisory adjustment will be required.

If you would like assistance with preparing for your ICAAP, or any other aspects of the revised capital standards, please contact your usual Taylor Fry Actuary, or one of us.

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