




The Actuarial Profession
making financial sense of the future

32nd ANNUAL GIRO CONVENTION


The Imperial Hotel, Blackpool


Believe in Your ICA

Richard Tamayo
Finance Director, NHBC



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Background to NHBC's ICA Submission

- July 2003 CP190 released
- May 2004 FSA announced early submission date
- July 2004 Integrated Prudential Sourcebook for Insurers issued
- November 2004 ICA submitted
- June 2005 ICG issued

The Act of Parliament
making the Insurance of the State

What the Submission Included

- 1) NHBC's history and structure
- 2) Risks and risk management
- 3) Quantitative analysis
 - Stress and scenario tests
 - Dynamic financial analysis

The Act of Parliament
making the Insurance of the State

Section 1

NHBC's history and structure

- From 1936 to today
- An unusual insurer
- An unusual product

The Act of Parliament
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Section 2

Risks and risk management

- Group Risk Register
- Process and Control Reviews

The Acton of Penstock
Modeling the future of the world

Section 3a)

Stress and scenario tests

- Attritional claim frequency and severity
- Price inflation
- Increasing propensity to claim
- Exceptional loss event
- Reinsurer default

The Acton of Penstock
Modeling the future of the world

Section 3b)

Dynamic financial analysis

The model

- Developed using Watson Wyatt's Simulum
- Based on existing reserve analysis
- Allows for the major risks within the Risk Register
- Projects P&L and balance sheet over a 20 year period

The Acton of Penstock
Modeling the future of the world

Section 3b) continued

Dynamic financial analysis

Key assumptions

- Business volumes
- Exceptional claim events
- Reinsurer default
- Operational risks

The Act of Parliament
Modeling the financial impact of the event

Section 3b) continued

Dynamic financial analysis

Confidence in the results

- Consistency with established analyses
- Sensitivity testing
- Reinsurance pricing
- Peer review
- FSA acceptance

The Act of Parliament
Modeling the financial impact of the event

The NHBC Board's Involvement in the Submission

Formal papers

- "Outline of Individual Capital Assessment"
- "NHBC's Individual Capital Assessment"

Informal involvement

The Act of Parliament
Modeling the financial impact of the event

NHBC Board Presentations and Debate

- An outline of the new regulations
- NHBC's approach to determining the capital requirements
- Discussion of the key assumptions
- A summary of the results and their sensitivity
- Board's satisfaction with progress

The Essential Programme
Making Your Difference in the Future

Ingredients for Success?

- Embedding in the business
- Board understanding
- Working with the FSA

The Essential Programme
Making Your Difference in the Future

Reaping the Benefits

- A tailored approach to capital requirements
- Improved relationship with the FSA
- Underlines the importance of risk management
- Quantification of difficult to assess risks
- A comprehensive model ready for other applications

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Thank you

The Journal of Psychology
Making Psychology a Part of Your Life
