

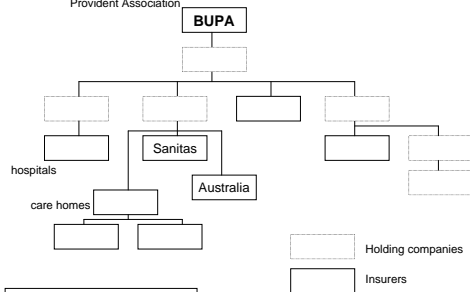


Living your ICA

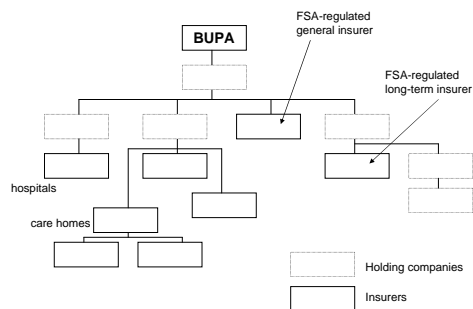
the experience of BUPA's general insurer

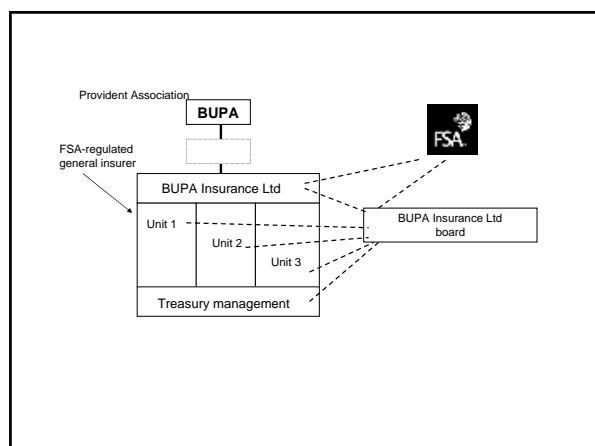
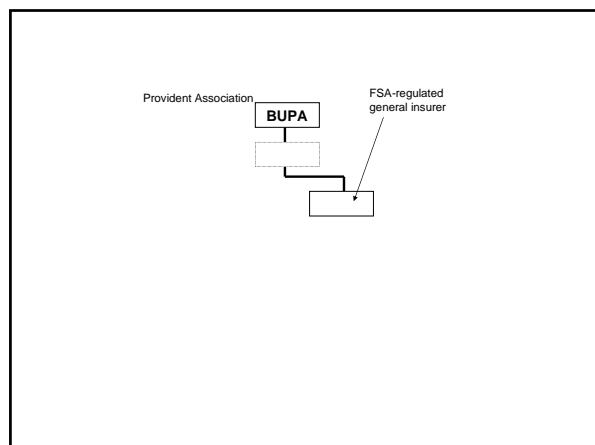
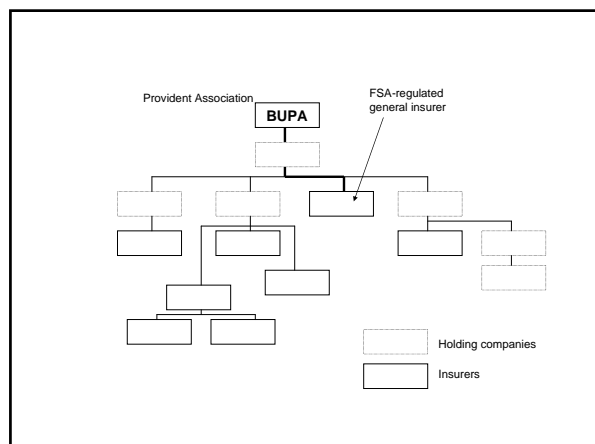
GIRO Blackpool 19th October 2005
David Paul
Group Actuary, BUPA

Provident Association



Schematic of BUPA Group





BUPA Insurance Limited

- Authorised for Accident & Health class
- Underwriter of individually-purchased and company sponsored PMI in UK
- “home foreign” portfolio
- Writes Irish PMI through “EU freedom of establishment” Irish branch

General Management background

- BUPA Main Board: oversight of whole of BUPA Group including insurers worldwide
- BUPA Insurance Ltd board comprises:
 - Main Board members / Non-exec / Senior managers of business units
- Distinct senior management teams:
 - UK PMI
 - Home foreign business
 - Irish branch
 - Asset management
- Insurer board is pivotal in coordination of different functions of the regulated entity

Risk Management Background

- Business unit level teams (actuarial)
 - Claims analysis
 - Rates-setting
 - Technical provisions
- Central finance teams
 - Asset management ~ liquidity / matching & localisation
 - Solvency / Capital management
 - Board reporting
- Compliance Department
 - Risk register / risk mitigation planning
- Operational Control

Regulatory background

- PMI is relatively low risk, non-volatile class of general insurance, but
- BUPA represents 40% market share of UK PMI sector. FSA supervise BUPA under "major retail firms" division
- Internal Group restructuring in 2000 – 2001
 - insurer / service company / boards
 - capital structure
- PMI business has been stable and consistently trading profitably – but short "track record"
- PMI business able to self-fund its growing capital requirement

ICA experience

- Late 2003 - agreement to enter ICA pilot
- Summer 2004 - ICA pilot submission and discussions
- August 2004 - indicative ICG
- Dec 04 / June 05 - living with ICA
- Financial model development
- October 05 - ICA 2nd submission



Opportunities of ICA

- Chance to embed risk-based capital approach within BUPA Group
 - Improve understanding of relative capital needs: e.g. of UK, Spanish and Australian insurers
 - also relevant to capital allocation between insurers and non-insurers
- Enable insurers' boards to identify risks requiring capital
 - Could then decide whether to retain capital or to mitigate risks
- For BUPA Insurance Ltd (the general insurer) ICA seen as an effective way of demonstrating the nature of risks in PMI insurer and the effectiveness of controls. Improve quality of dialogue with FSA.

ICA pilot decisions

- Difficult to meet short timescales – but better that we should try!
- Centrepiece of ICA would be financial model representing separate business units and the asset side of insurer balance sheet
- Some capital requirements would be assessed separately from financial model
- Central finance team would:
 - Build and manage financial model
 - Coordinate with business units especially with their finance and risk management teams
 - Provide linkage where capital is managed across BUPA Group
 - Communicate with senior managers and with insurer board

Challenges of ICA

- Unfamiliar science!
- Financial model requires bringing together, in one place, business knowledge that traditionally resides (and is needed!) in business units
- General insurer is not a "normal" general insurer
- Timescale of ICA pilot necessitated that only key people could be involved and briefed, at first
- Codification of "made text" for PRU was not completed at time of pilot

ICA pilot outcome

- “indicative” ICG delivered by FSA
- FSA supportive ~ helpful critique of ICA pilot submission
- Constructive dialogue about internal programme to develop ICA internally
- New objectives

Post ICA Pilot – new objectives

- Time horizon & tolerance level
- Translate ICG into month-to-month capital & solvency management
- Tier two capital / dividend policy development
- Integration: business planning and ICA
- Group risk

Post ICA pilot - technical

- Mechanical
 - Simulations / statistical
 - Method to refresh
- Sensitivity testing
- Greater local business involvement in ICA



Living our ICA

Living our ICA - scorecard

- | | |
|---|---|
| <p>Wins</p> <ul style="list-style-type: none"> • ICA in background means we do some things differently • Some risks more specifically identified and more management thought directed towards mitigation • Concentrated attention on ICA from certain key managers as and when relevant | <p>.... and yet</p> <ul style="list-style-type: none"> • Some things are not affected by existence of ICA • Successful processes (e.g. rates-setting) to mitigate insurance risks - have always been vital. ICA hasn't changed that • ICA is influential without broad spectrum of management knowing intricacies of financial model |
|---|---|

Living our ICA - scorecard

- | | |
|---|---|
| <p>STRENGTHS</p> <ul style="list-style-type: none"> • High level awareness of key managers / board members • ICA not a parallel strand – not managed by a department located in “a dusty corner” • ICA function integral in discussion of live issues • ICA slowly adding detail / sophistication – increasing awareness | <p>ROOM TO IMPROVE</p> <ul style="list-style-type: none"> • Wider dissemination of ICA • ICA is quite “central” – needs to be devolved as well as at the centre • Need to update faster and more efficiently • More sensitivity testing • For consistency and to embed in the Group – eventually requires broader use in non-UK BUPA Group insurers |
|---|---|

Living our ICA - scorecard

REALITY

- Typical management functions need to control risks in their 'compartment' – don't see overview and therefore ICA is alien
- ICA remains too much a "black art"
- Managers have a business to run and it would be a risk if they didn't concentrate on that

AMBITIONS

- Decompose ICA so that more managers know its relevance
- Plain English presentations
- Tackle fresh management issues
- Avoid stagnancy
- Avoid over-kill
- Feedback loop - when something changes

Conclusions

- ICA has reinforced control processes that already existed
- Decisions have been influenced by ICA but influence is subtle
- First time installation onerous
 - maintaining and "living" ICA is still onerous!
- Impact for BUPA
 - Educational ~ Gradual
 - Not seismic ~ not revelational
- Here to stay
 - PRU
 - Solvency 2 ~ CFA Number 11