



FINANCIAL SECTOR ADVISORY

## Workshop: The world post ICA

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GIRO 18 October 2005  
ADVISORY

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## Agenda

- Introduction: Regulatory context
- The journey ahead
- Workshop 1 - The current state: Questions for the Board and senior management (discussion and presentation back to the group)
- Workshop 2 - Milestones and building blocks (case study, discussion and presentation back to the group)
- Conclusion and wrap-up



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## Regulatory context

The current state: Where are we?  
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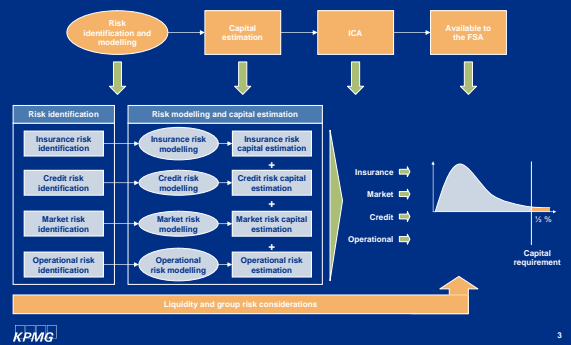
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## Individual capital assessment: Current state



## ICAS experience to date

- Most firms have responded well
- Ongoing work required due to a lack of data for some aspects:
  - Operational risk
  - Aggregation / correlation
  - Stressed conditions
- Risk and capital linkages not yet fully integrated
- Evolution: FSA processes developing as they gain experience

## Policy intent of ICAS

- For firms to hold capital more appropriate to their business and control risks (99.5% confidence level or equivalent)
- Emphasis on provision of better risk management rather than perfection in mathematical modelling
- To emphasise senior management responsibility
- To enhance consumer protection and market confidence by reducing the risk of financial failure



# The world post ICA

What is the journey ahead?

Jacqui Fenech

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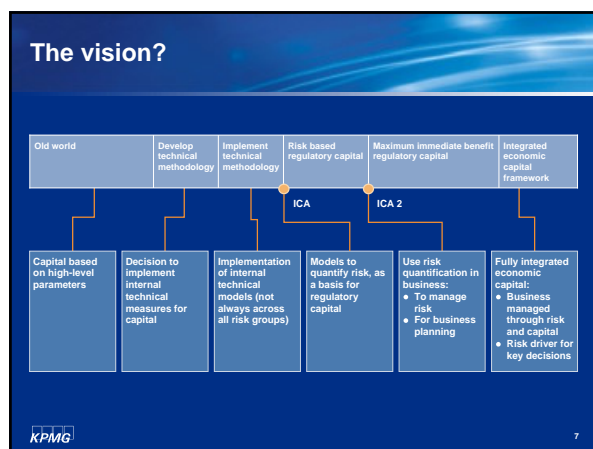
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## Questions for Boards and senior management prior to the journey ahead

Strategic plan	
Organisational structure and governance	
Risk assessment and management	
Risk-based capital management	
Systems and processes	
Reporting: internal and external	
Training and competence	

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## Workshop 2 - Milestones and building blocks along the journey ahead

Case study, discussion and presentation back to the group

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## The vision

Old world	Risk based regulatory capital	Maximum immediate benefit regulatory capital	Integrated economic capital framework
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## Case study - TRX Insurance plc

Read and discuss

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## Steps to take regulatory capital model forward (UK example)

Review	Enhance	Embed	Optimise
<ul style="list-style-type: none"> <li>Model validation</li> <li>Action plan for improvement</li> </ul>	<ul style="list-style-type: none"> <li>Model weaknesses</li> </ul>	<ul style="list-style-type: none"> <li>Risk culture</li> <li>Governance</li> <li>Organisation structure</li> <li>Processes and systems</li> </ul>	<ul style="list-style-type: none"> <li>Risk-adjusted return on capital</li> <li>Pricing</li> </ul>




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## Milestones along the journey to the new state

Review	Enhance	Embed	Optimise




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## Steps to take regulatory capital model forward (UK example)

Review	Enhance	Embed	Optimise
<ul style="list-style-type: none"> <li>Independent post implementation review</li> <li>Action plan for improvement</li> <li>FSA readiness preparation</li> <li>Model validation</li> <li>Peer review comparison</li> </ul>	<ul style="list-style-type: none"> <li>Model weaknesses (op risk, correlations, reserving)</li> <li>Data collection and integrity</li> <li>Use of external data (e.g. ABI)</li> <li>Efficiency of process</li> <li>Better links to business processes (e.g. underwriting)</li> <li>Un-modelled risks</li> </ul>	<ul style="list-style-type: none"> <li>Communicate to wider business</li> <li>Governance</li> <li>Monitor performance of model and change as required</li> <li>Data flows</li> <li>IT processes</li> <li>Links to other projects</li> </ul>	<ul style="list-style-type: none"> <li>Portfolio optimisation</li> <li>Investment strategy and portfolio</li> <li>Discontinuance options</li> <li>Reserving strategy</li> <li>Hedging and mitigation options, including reinsurance strategy</li> <li>Systems and controls</li> </ul>




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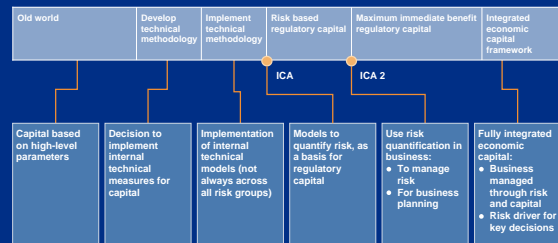
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## The vision?



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