Believe in Your ICA

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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

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

Section 1

NHBC’s history and structure

- From 1936 to today
- An unusual insurer
- An unusual product
Section 2

Risks and risk management

- Group Risk Register
- Process and Control Reviews

Section 3a)

Stress and scenario tests

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

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
Section 3b) continued

Dynamic financial analysis

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

Confidence in the results
- Consistency with established analyses
- Sensitivity testing
- Reinsurance pricing
- Peer review
- FSA acceptance

The NHBC Board's Involvement in the Submission

Formal papers
- “Outline of Individual Capital Assessment”
- “NHBC’s Individual Capital Assessment”

Informal involvement
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

Ingredients for Success?

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

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
Thank you