



**Life Convention 2006**  
Product pricing and allowance for ICA\*



Brian Paton, Principal Consultant

Nov 2006

\*connectedthinking 

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**Agenda**

Why allow properly for capital and risk?

What do we mean by capital?

How much capital should we allocate to products?

How does this enable us to enhance efficiency?

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**Why allow properly for capital and risk?**

- Good financial sense
- Risks determine the capital
- Business and pricing decisions
- Regulatory requirements

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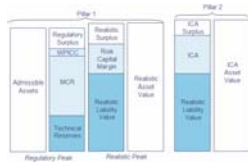
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What do we mean by capital?

- Regulatory - pillar 1 peak 1 (CP06\16)
- Realistic - pillar 1 peak 2
- ICA - pillar 2
- Economic risk based capital
- Required capital - EEV
- Rating agency capital



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CP06\16

- Reserving & capital requirements
  - Non profit expense reserving
  - Voluntary discontinuance
  - Allow contacts with no guaranteed SV to be treated as an asset
  - Allow value of shareholder transfers in RCM
  - Remove RCR for realistic basis firms
- ICAS framework guidance
  - 99.5% over 1 year time frame

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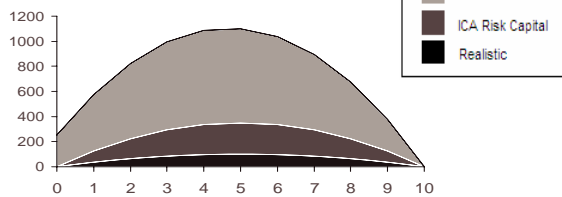
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How much capital should we allocate?

Term Assurance



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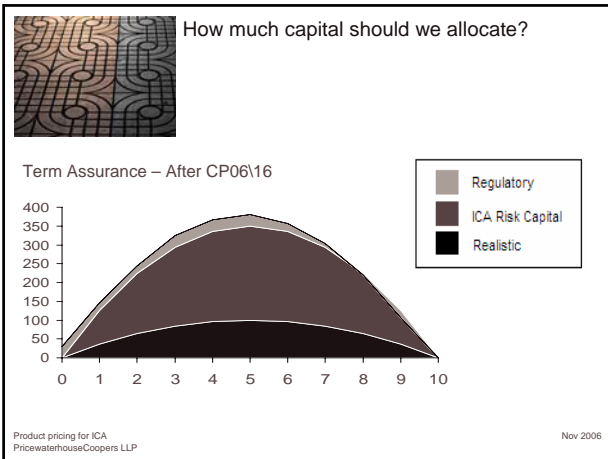
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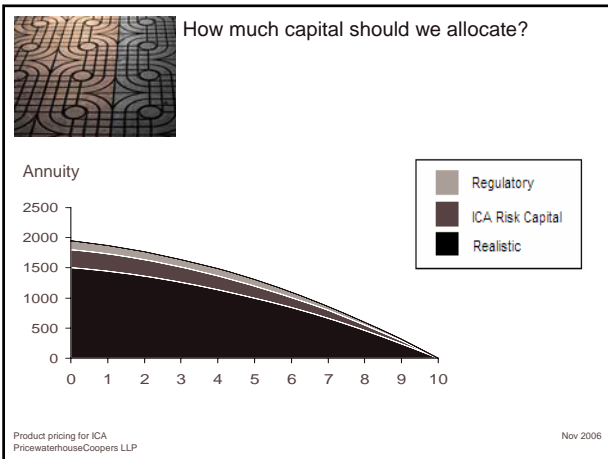
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### Implicit allowance for ICA in pricing

- Adjusting the risk discount rate
- Sensitivity analyses
- Economic capital measures
- Replace LTICR with allowance for ICA

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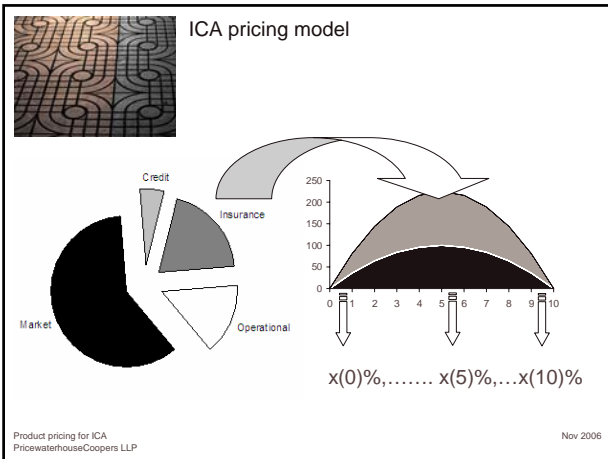
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- ### Understanding the marginal impact
- Overall current capital position
  - Integrated capital model
  - Factor based ICA risk projection
  - Operational risk allocation
  - Require calibration
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- ### Allowing for ICG
- 10 companies received ICG
  - All have  $ICG > ICA$
  - Guidance 110% to 170% of ICA
  - 4 companies have  $ICG > Pillar 1$
  - Recalibrate the ICA calculation
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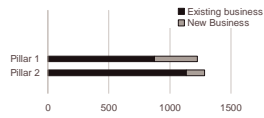
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### Enhanced capital efficiency

- Interaction of Pillar 1 and Pillar 2 capital
- Marginal capital pricing for new business
- Allow for additional marginal impacts
- Increased understanding



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### Embedding

- Capital allocation is reflected in business management
- Clear interaction with risk management
- Focus on business management not technical modelling
- Product launch decisions
- In force portfolio decision making

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### Summary

- Allow for the right levels of capital
- Embed ICA process in our pricing models
- Direct comparability
- Capital efficiency

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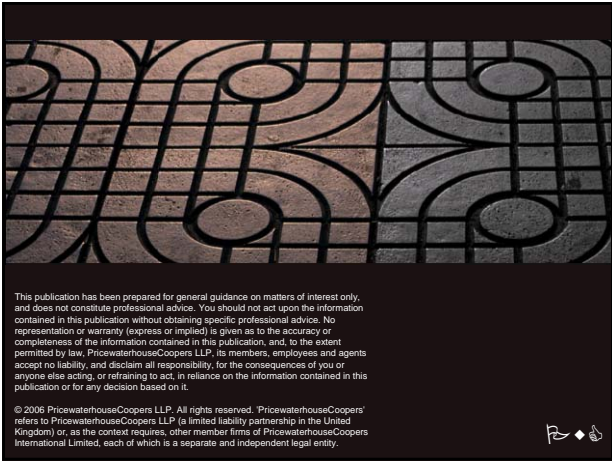
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