

Internal Capital
Adequacy Assessment
Process (ICAAP)
Sprint to the finish line



Setting the Scene

APRA's ICAAP is aimed at assisting insurers to:

Better identify, measure, aggregate and monitor risks; hold capital commensurate with these risks; and have systems in place to continuously monitor capital adequacy.

Below is the broad LAGIC development timeframe:



ICAAP Report and Summary Statement

The annual **ICAAP Report** describes the implementation of the capital management process. It focuses on the outcomes over the previous 12 months and looks forward at least 3 years.

Insurers are opting to align the timing of the ICAAP report with either the business planning cycle or the year-end reporting cycle.

Some ICAAP timing considerations

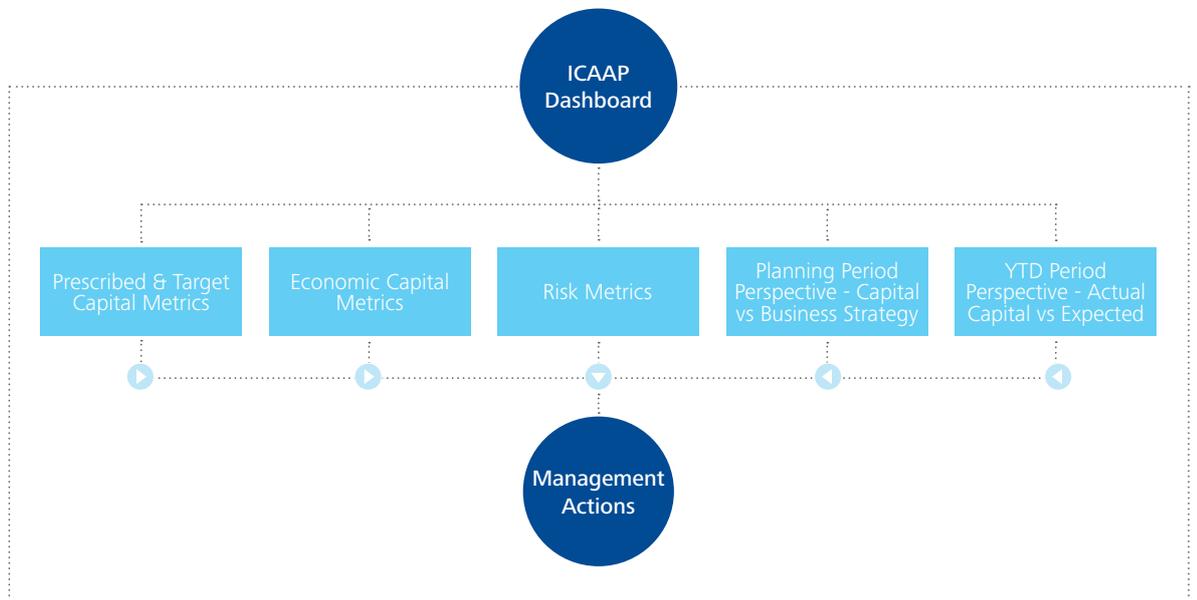
- The timing of the business planning cycle relative to statutory and corporate reporting cycles, as well as the financial period covered by the business plan; and
- The relative importance placed on viewing the ICAAP report as:
 - A review of actual versus expected solvency capital over the last financial reporting year (aligned to year end).
 - A formalisation of the link between strategic / business plan risks and capital required to support those risks (aligned to business planning and strategy cycle).

The ICAAP Summary Statement:

- 1 Is intended to be a high level document, providing a road map to the full ICAAP report. It doesn't need to be separate from the ICAAP report. The ICAAP report will be updated annually and the Summary Statement is intended to be effective for a number of years.
- 2 Should summarise separately and discuss the linkages between capital assessment and allocation, risk appetite and risk management, business plan, key internal controls, key procedures and personnel.

Insurers have been or are in the process of putting together prototypes of the ICAAP report and obtaining management and Board feedback ahead of the first ICAAP report due date.

One approach is to provide the Board with regular (e.g. quarterly) ICAAP dashboards which monitor and report on metrics connecting risk and capital. We view the use of an ICAAP dashboard as good practice as it will assist in incrementally painting the risk and capital picture throughout the year and assist in embedding appropriate and ongoing Management and Board actions.



The key elements of the above ICAAP dashboard include:

- Comparisons of Prescribed, Target and Economic Capital over the last year, trends overtime and over the forthcoming planning period. This also requires an understanding of why there are deviations from target capital levels.
- Establish the nexus between capital and the business strategy. Comparing the anticipated capital levels over the planning period to the risk profile in that period.
- Risk metrics including the risk appetite, risk tolerances and limits which the Board and senior management have defined.

Independent review of the ICAAP Report

APRA's requirements	Considerations
<p>An independent comprehensive review of the ICAAP is required over a reasonable timeframe. GPS 110 states <i>"A review must be conducted at least every three years."</i></p>	<p>Larger insurers or those with a more complex mix of business would reasonably be expected to have an independent review once every 1-3 years. Smaller and/or mono-line insurers may be able to attain their review every 3 years. Any significant changes affecting the business should prompt an immediate review.</p> <p>Insurers may consider whether smaller incremental reviews or larger long-term reviews are more appropriate. An incremental review will allow the insurer to focus on specific components of the ICAAP report e.g. risk appetite and management framework, capital targets, strategies for maintaining adequate capital and stress testing. Ideally, the components which pose the greatest risk to the business will be prioritised at each incremental review. A series of incremental reviews must comprehensively cover the ICAAP framework.</p> <p>Insurers should put in place a framework to report the outcomes of the independent review to management and the Board as well as processes to respond to any recommendations.</p>
<p>The reviewer does not need to be someone external to the insurer however does need to be <i>"appropriately qualified"</i> and <i>"operationally independent of the conduct of capital management."</i></p>	<p>The independent review requires a team with capabilities across risk management, capital management, insurance modelling and analytics, governance and compliance.</p> <p>In considering who is appropriately qualified, insurers should consider accessing personnel with Actuarial, Risk, Audit and Advisory expertise, whether these are sourced externally (e.g. consultants) or internally (e.g. internal audit team).</p> <p>The requirement for <i>"operational independence"</i> may include or exclude a number of candidates including the External Auditor, External Peer Review Actuary, Internal Auditor or Appointed Actuary, depending on the company.</p>

Contact Us

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We are part of a global Actuarial and Insurance Solutions Network consulting across General and Life Insurance, Banking, Health, Superannuation.

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