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making financial sense of the future

Accounting and Solvency Developments – What you Need to be Worried About!


John Charles
Mohammad Khan
Shreyas Shah

32nd ANNUAL GIRO CONVENTION
The Imperial Hotel, Bangkok

Agenda

Issues:


- IFRS
- Solvency II
- SarBox



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IFRS - Timetable

- Insurance Contracts – Phase 1/IFRS 4:
effective date – 2005 year-ends
- Phase II – 2008?



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IFRS Phase 1: Key Issues

- Disclosures
- Prudence
- Differences in asset and liability valuation
- Definition of insurance contract
- Provisions for future claims not permitted

The Act of 1998
The Act of 1998

IFRS Phase 2: Key Issues

FAIR VALUES?

- Discounting
- Risk margin
- Volatility
- Profit recognition
- Impact on strategy

The Act of 1998
The Act of 1998

IFRS Phase 2: Key Issues (contd.)

Risk Margin

- Transparency
- Prudential margin or market-based?
- Methods – exit, entry or something else?

The Act of 1998
The Act of 1998

SarbOx

It's not just about spreadsheets!

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Solvency II - Aims

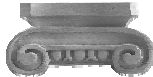
- Establish solvency standard to match risks and encourage proper risk control in line with IAIS principles
- Harmonise across EU
- Assets and liabilities on fair value basis consistent with IASB if possible
- Set higher solvency standard than currently to permit timely intervention
- 3 Pillar approach broadly consistent with Basel II

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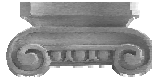
Solvency II – Three Pillars



Pillar 1 –
technical rules
for valuation of
assets, liabilities
and solvency
margin (both
SCR and MCR)



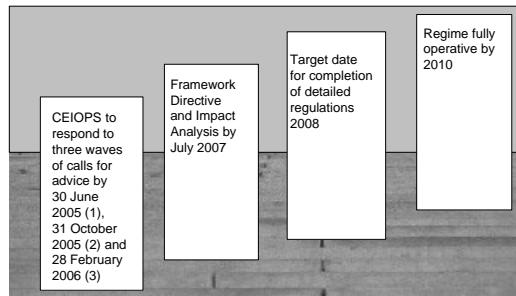
Pillar 2 –
supervisory review
process including
individual capital
adjustments having
regard to
effectiveness of risk
management and
corporate
governance
arrangements



Pillar 3 –
public and private
disclosures (to the
regulator); little
debate on Pillar 3
to date

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Solvency II - Timetable



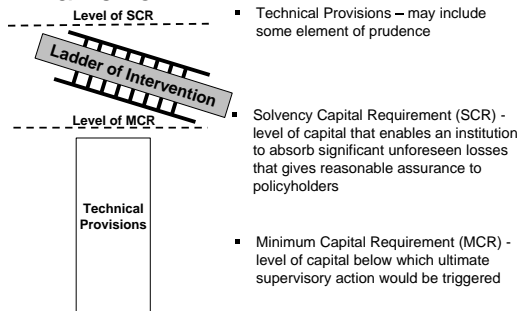
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Quantitative Impact Studies

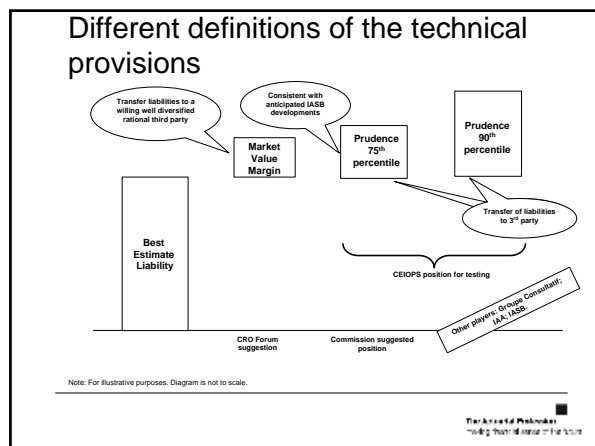
- Two QISs will take place before the Framework Directive is implemented
- QIS 1 will run from October 2005 to December 2005 and will request details of technical provisions for both life and general insurance
 - Inclusion of 75% and 90% risk margins and impact of "deposit floor"
 - Risk margins do not apply to financial elements of basis
- Confirmed use of swap yields for risk free rates – no exemption for illiquid liabilities
- QIS 2 in spring 2006 and will focus on SCR and MCR

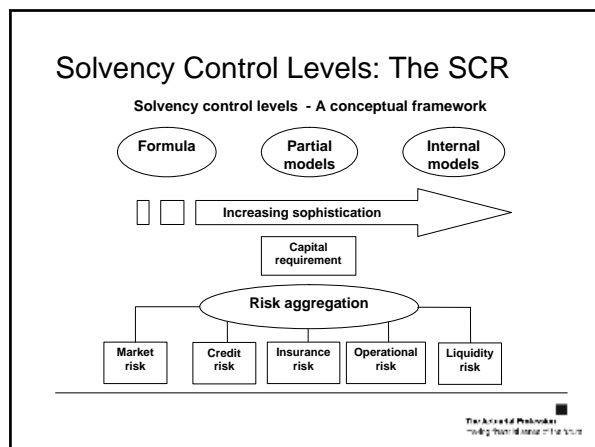
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Main Reference Points for Solvency II Framework



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Solvency II – Issues

- SCR and MCR to be defined
- Definition of time horizon
- Treatment and definition of prudence
- Acceptability of internal models
- Group Diversification
- VaR or TailVaR
- Harmonisation

The Act of the Prudential Supervision

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