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Solvency II Balance Sheet review

Speakers:
Sam Lever and Julie Tabourot
PwC



Agenda

- Audit of the Solvency II Balance Sheet
- Solvency II Balance Sheet – moving to “Business as Usual”
- Seeking the opportunities
- Concluding remarks



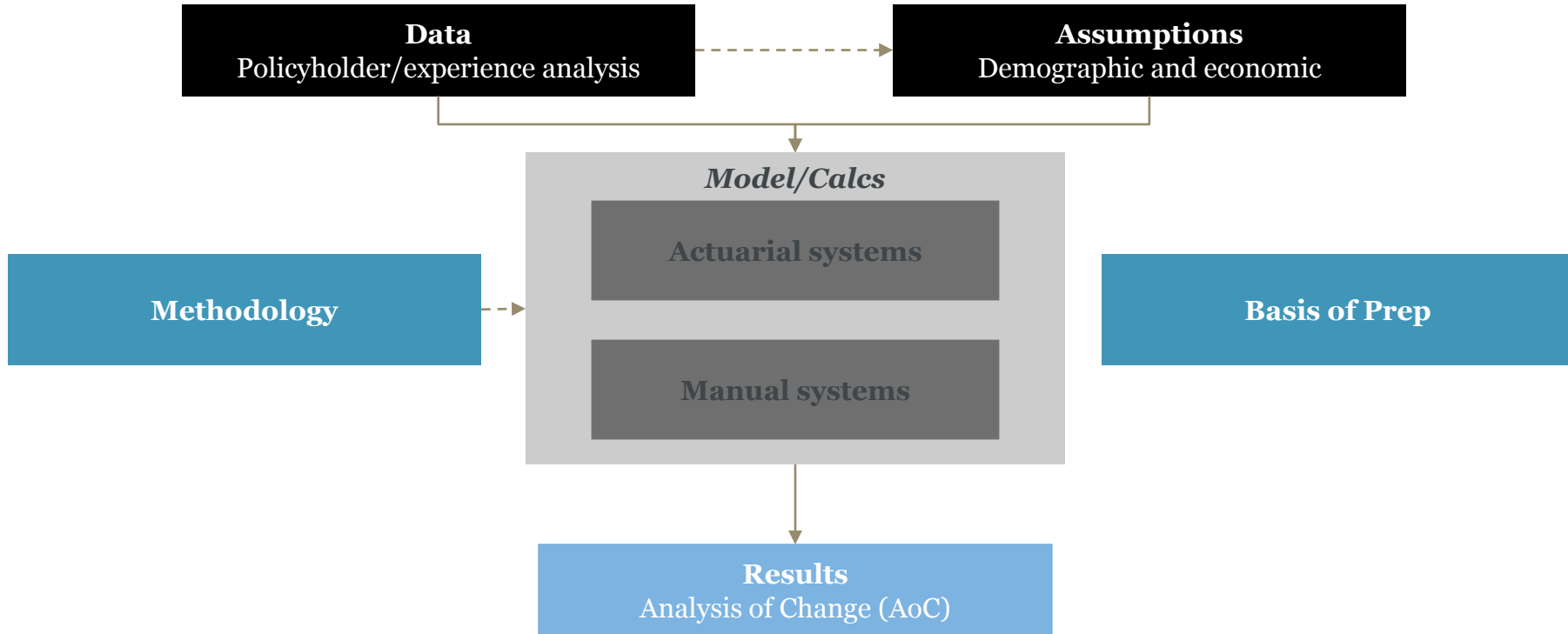
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Audit of the Solvency II balance sheet

What did we learn and what are the likely future requirements?

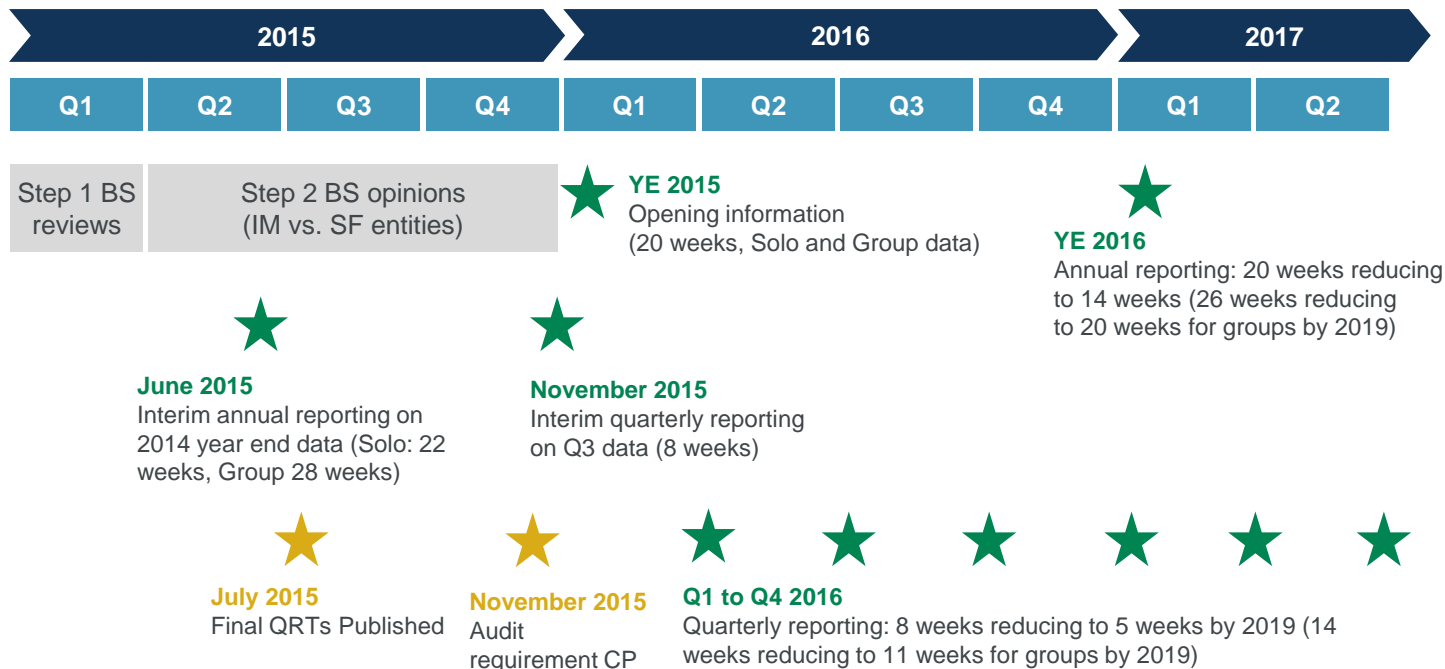
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Solvency II balance sheet – scope refresher



Solvency II reporting timeline

Regular quarterly and annual reporting from 2016



Technical milestones



Reporting deadlines

Note: Deadlines are based on a 31/12 year-end

Technical challenges

The way forward

Contract
boundaries

With-profits

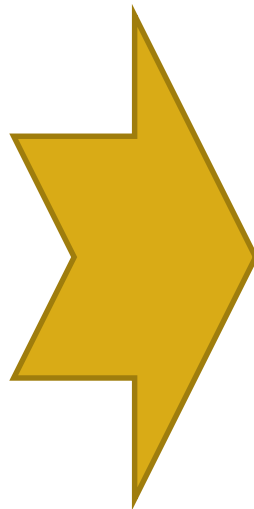
Staff pension
scheme

Extent of ring
fenced funds

Treatment of
complex groups

Consolidation rules

Assumptions



Basis of
preparation

PRA

Future scope of Solvency II assurance


Considerations




PRA / EIOPA requirements



Same scope as YE 2014?



Transition from basis of preparation to 'full' Solvency II



ICA assurance for technical provision transitional measure



Risk margin assurance



SCR assurance – standard formula versus internal model?




External market disclosure, other QRTs and narrative assurance



Public vs. Private and Annual vs. Quarterly reporting

External market disclosures of Solvency II

- Consistency with Pillar 3 reporting
- Possible metrics / disclosures:
 - Own funds
 - SCR
 - Run-off profiles of risk margin and SCR
 - Qualitative disclosures.
- How to present transitional measures, capital add-ons, D&A / OFS undertakings and equivalence?
- Linkage to other metrics and potential volatility – cash, distributable earnings, liquidity



A consistent minimum level of disclosure and use of terminology across the European market is required to maximise the benefits from Solvency II



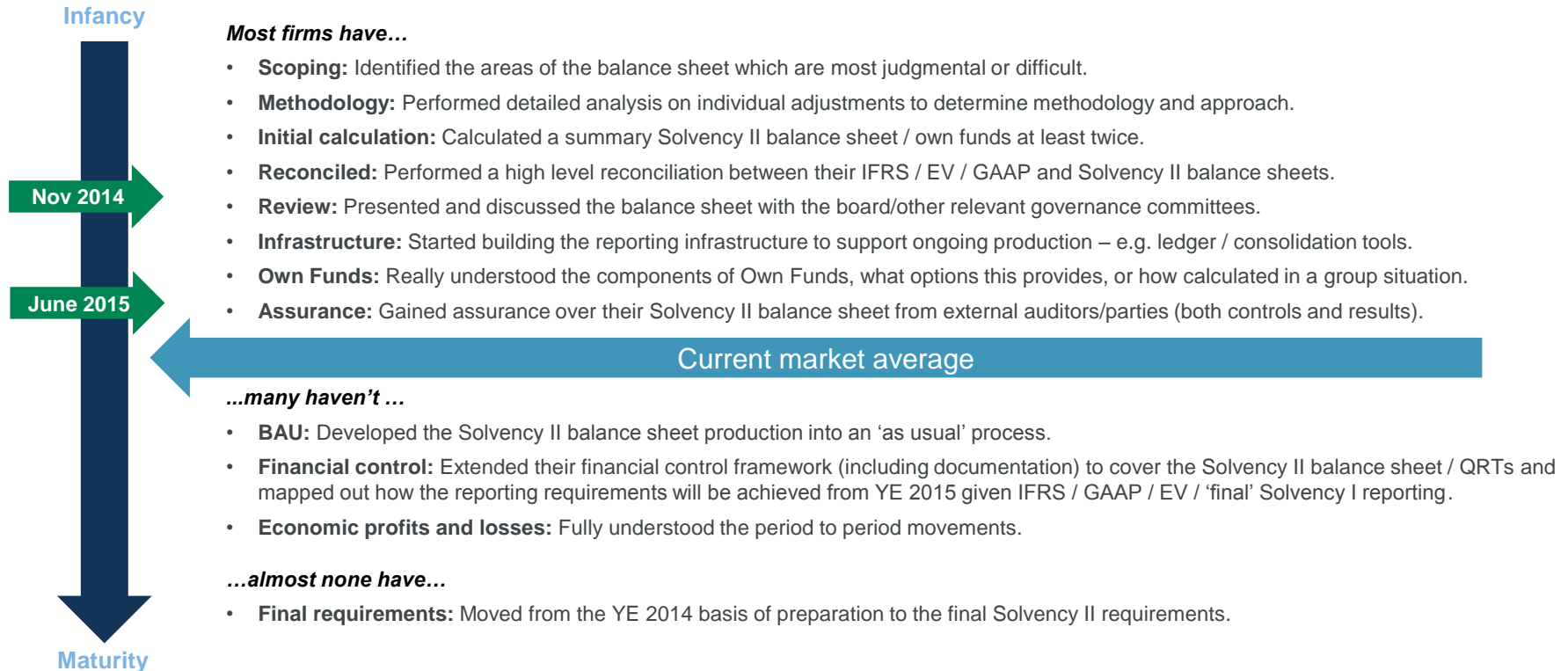
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Solvency II balance sheet

Moving to “Business as Usual”

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How mature is your Solvency II balance sheet?



Overarching themes

Whilst uncertainty remains, consensus is slowly emerging on some difficult areas



Governance



Documentation



Valuation methods



Actuarial function



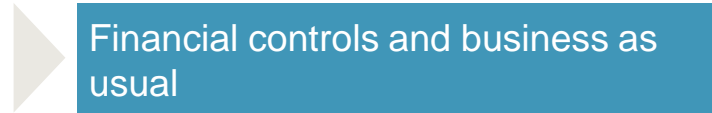
Basis of preparation



System architecture



Silo mentality

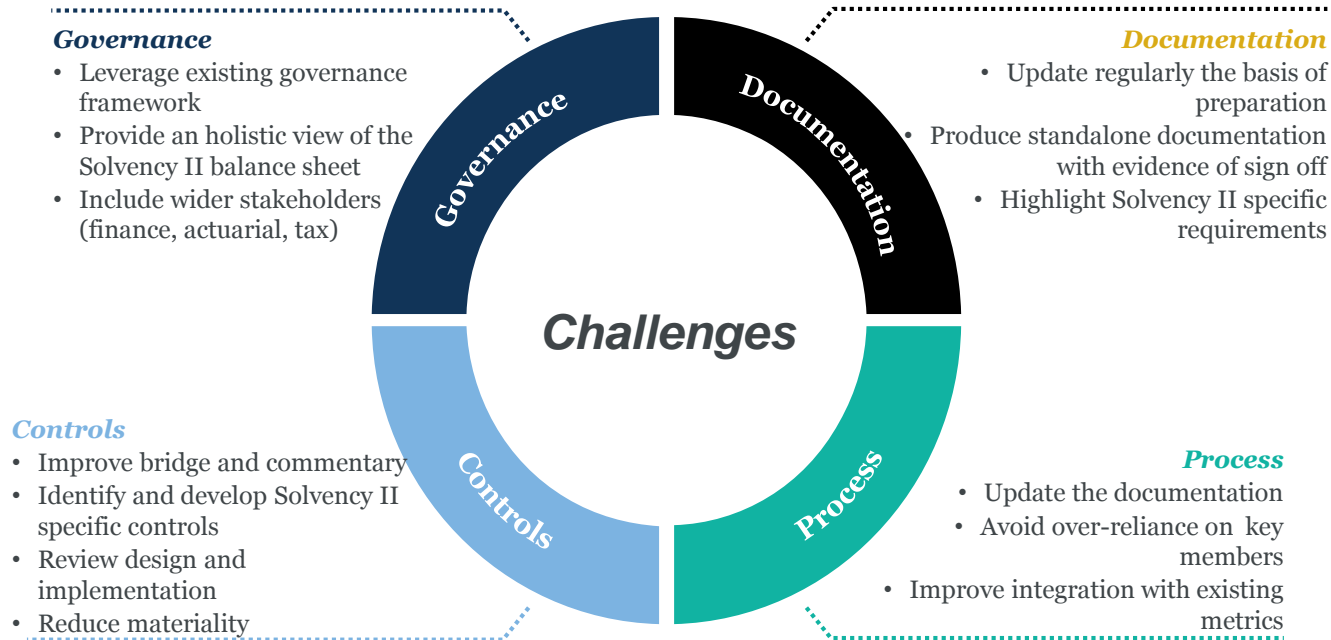


Financial controls and business as usual

Key challenges faced




Key challenges faced and possible solutions



Factors to consider

Business and operational considerations




Impact on tax and distributable reserves




Impact of Solvency II ALM / capital optimisation on IFRS performance




Operational and cost benefits (e.g. model runs, multiple restatements)




Availability of Solvency II data for restatement period



Messaging to market (including comparability with peers)



Wider impacts such as on intangible assets (e.g. DAC, DTAs etc.)



Availability of EV profit projections for DAC/DTA recoverability



Parent versus subsidiary accounts

What's next?

Internal
credit rating
review

Now!

MA and
Transitional
approval

November
2015

IMAP
approval

December
2015



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Positives of Solvency II

Seeking out the opportunities

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The positive side of Solvency II



- Single approach to capital
Avoid the Pillar 1 overhang
- More direct link to risks run
Greater shareholder engagement in management strategy?
- Rewards risk management
Allowance for mitigating actions
- Recognition of managing diverse risk base
Higher risk charges, but greater diversification benefit vs Basel III
- 'Solvency ratio' likely to become too simplistic
More appropriate comparison measures to reflect risks

Opportunities for the new world

De-frosting of the business plan

- Opportunity to now move ahead with new business and strategic objectives.



Educating and engaging stakeholders

- More consistent capital measures across the industry, more accessible for analysts and shareholders to understand the drivers of change.



Strength by numbers – Strength by approach

- Public reporting to be more focussed on approach and supporting business plan, rather than ability to produce volumes of data.



Market opportunities incl. M&A

- Expect further consolidation in UK life.
- Challenged business models following pension freedoms and more onerous governance (especially on annuity funds).





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Concluding remarks

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Concluding remarks

- Period of continuing change: Increased complexity, so communication and strength of reconciliations between financial, regulatory and supplementary reporting will be key.
- Recent Solvency II experience has shown the importance of robust governance and processes.
- Implications of permanent divergence between accounting and regulatory reporting from 1 January 2016.
- Risk of mixed accounting practices in the UK during the gap period between Solvency II and IFRS 4 Phase II.
- Future of embedded value / supplementary reporting post-Solvency II to be determined (including implications for current IFRS).

Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenters.