



The Actuarial Profession

making financial sense of the future

Life conference and exhibition 2010
Tamsin Abbey, Deloitte, Clara Hughes, Fitch Ratings



Solvency II And Ratings...

7-9 November 2010

Meeting between Fitch Ratings and ... the infamous Hard Knock Life Plc

- New FD with no knowledge of the ratings process
- Fitch parachutes team in to explain and talk about Solvency II...

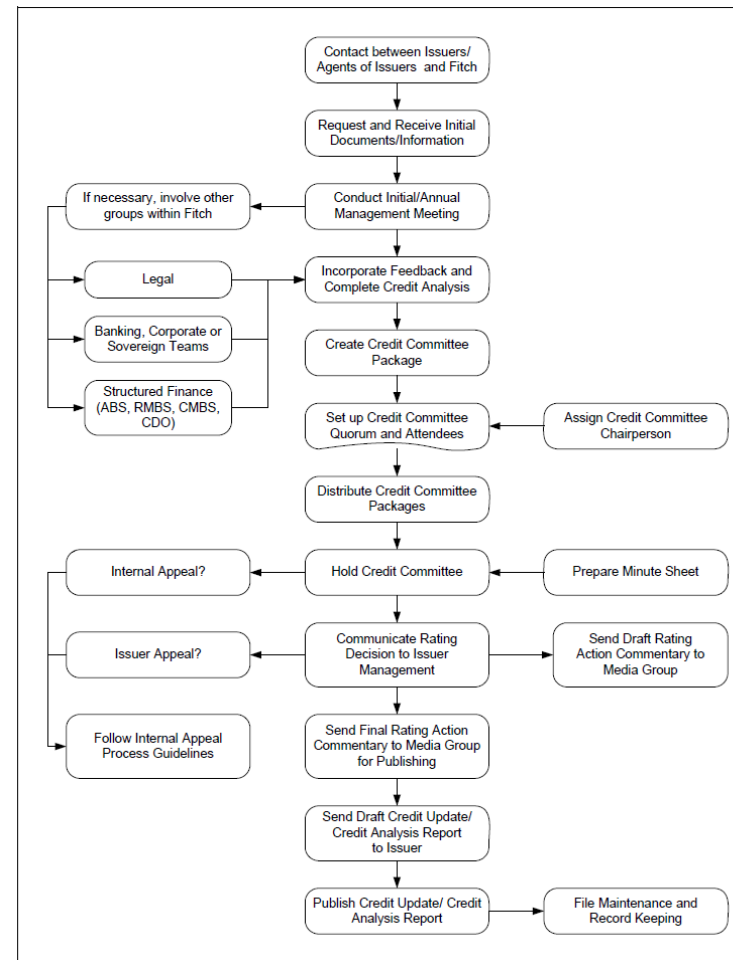
...though not literally due to budget constraints...



How do you figure out a rating?

Ratings process

- Analytical team
- Input from rated entity
- Committee process
- Criteria development
- Surveillance of ratings
- Dissemination



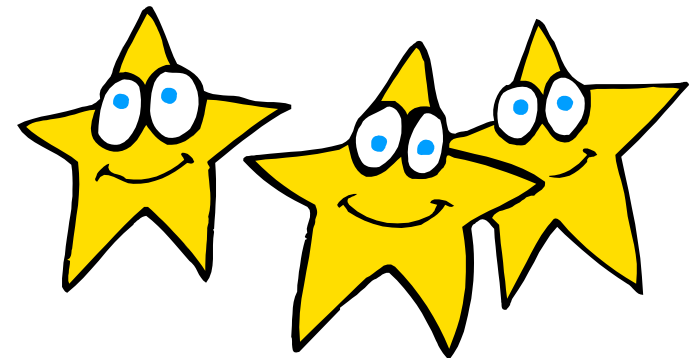
So I get a rating, that sounds simple... ...isn't it?

Different types of rating

- Short-term / long-term
- International / national scale
- IFS / IDR / senior debt / subordinated debt
- Full / Private / Public / CA / Shadow

Other considerations

- Group ratings and 'notching'
- Support floors / country ceilings / caps
- Foreign currency / local currency



Setting those complications aside...

...what factors do you look at?

Financial Review	Industry Review	Operational Review	Organisational Review	Management Review
Profitability	Competitive landscape	Underwriting expertise	Parent financial strength	Strategic vision
Investments and liquidity	Pricing trends	Distribution capabilities	Dividend requirements	Management quality
Loss reserve adequacy	Competitive advantage	Business mix	Financial flexibility	Depth & breadth of experience
Reinsurance utilisation	Barriers to entry	Market share	Strength of affiliates	Risk appetite
Catastrophe risk	Bargaining power	Operational scale	Strength of subsidiaries	Successful plan execution
Capital adequacy	Tail of losses	Expense efficiencies	Group synergies	Organisational structure
Financial flexibility	Regulatory environment	Brand recognition	Explicit support agreements	Corporate Governance
Peer analysis	Accounting framework	IT capabilities	History of support	Financial projections

What do you need from me as FD at Hard Knock Life Plc?

We need a clear concise consistent summary of:

- Current situation
- Future expected situation (projections)
- Outline of assumptions
- Sensitivity to changes in assumptions (macro environ)

And...

- Risk management
- Business strategy


Oh, we have all that all ready for you... ...that's easy!

Current sources:

- IFRS / GAAP
- Solvency I
- MCEV (TEV / EEV / EV)

Main issues...

- Inconsistency
- Lack of comparability
- Variable level of disclosure
- Not necessarily representative



The image shows a tilted view of a financial table with multiple columns of numerical data. The numbers are arranged in a grid-like pattern, with some values appearing to be calculated or derived from others. The table is oriented diagonally, with the top-left corner towards the upper left of the frame. The numbers are in black text on a light background, and the table is bordered by thin lines. The data appears to be financial in nature, possibly related to insurance or actuarial science, given the context of the slide.

Well, Solvency II is going to fix all that... ...isn't it?

Consistency / comparability concerns:

- Inconsistent implementation of rules
- Internal models / standard formula
- Transitional arrangements
- Opt-outs
- Restructuring

Upside...

- Risk sensitive
- Capital up!

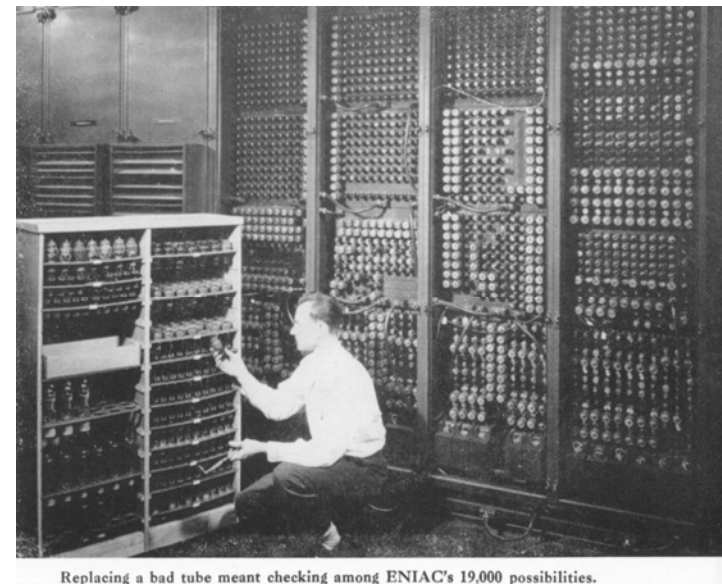


Photo Source: US Army

So what other impacts are you expecting ? ...in particular on my competitors...

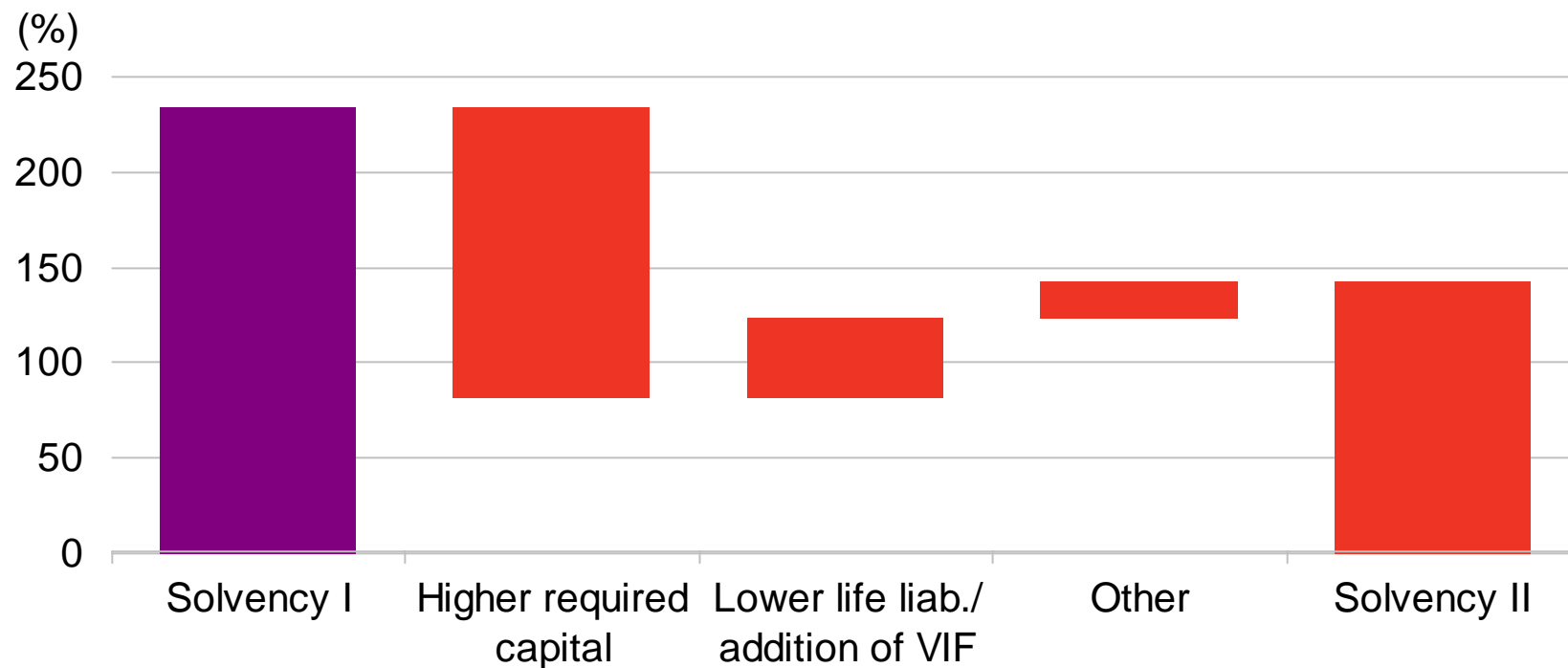
Expected impacts:

- Shift from capital-intensive to capital-lite products
- Asset reallocation
- Increased de-risking
- Industry consolidation
- Company restructuring
- Implementation costs
- Increased use of reinsurance
- Winners and losers!



And what do you think will happen to capital? ...for a notional company...

Estimated for YE09 moving from SI to QIS 5



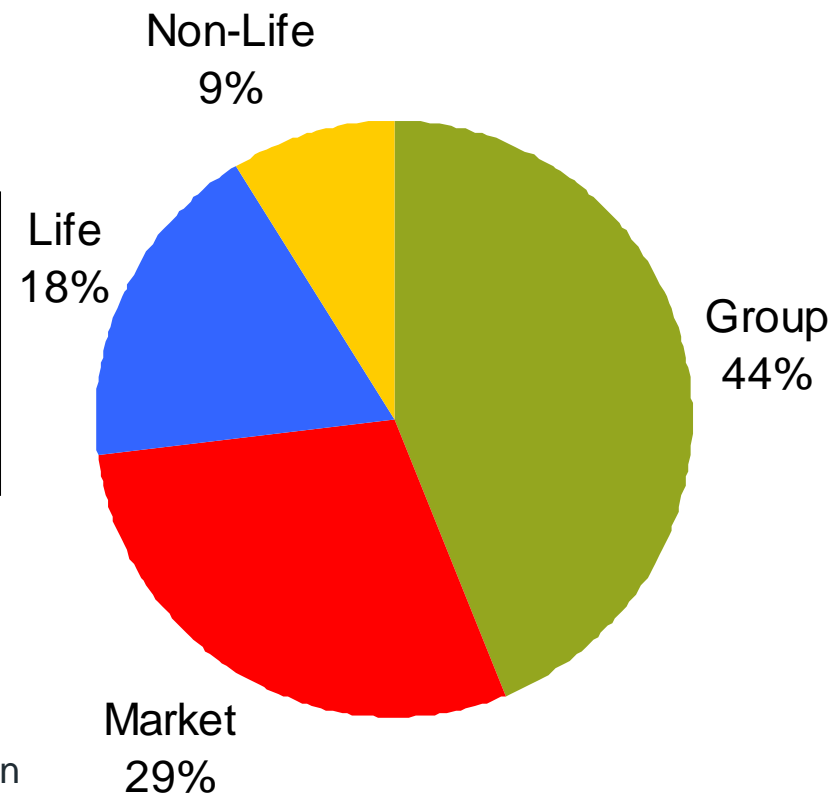
Source: Morgan Stanley research, Oliver Wyman

And what will diversification benefit look like? ...for a notional group...

Estimated for YE09 moving from SI to QIS 5*

Significant Credit Available

- Estimated at 25-35% under QIS 5 *
- Reported as 21-26% under QIS 4 **



* Source: Morgan Stanley research, Oliver Wyman

** Source: CEIOPS, Based on 2007 Data

So if ratings agencies have it all worked out... ...why is everyone talking about it so much?

Outstanding points:

- Transitional arrangements
- (Relative) level of some standard capital charges
- “Value of in force”
- Liquidity premium allowance
- Disclosure
- Tax
- Internal model approval



So what does this all mean for credit ratings...?

**Capital Req.s
Up Means
Leverage Down**

**Increased
Barriers to Entry**

**Improved Risk-
Based
Assessment**

**Transparency
and
Comparability
Up?**

Implications for Ratings

**Short-Term
Implem-
entation Risk**

**Threats to Some
Product Lines**

**Technical
Issues: Coupon
Deferrals**

**Transparency
and
Comparability
Down?**

Questions or comments?

Thank you for listening from
Hard Knock Life Plc
and
Fitch Ratings

