



Institute
and Faculty
of Actuaries



Pillar 3: Supporting Market Understanding or Just Holding Us Up?

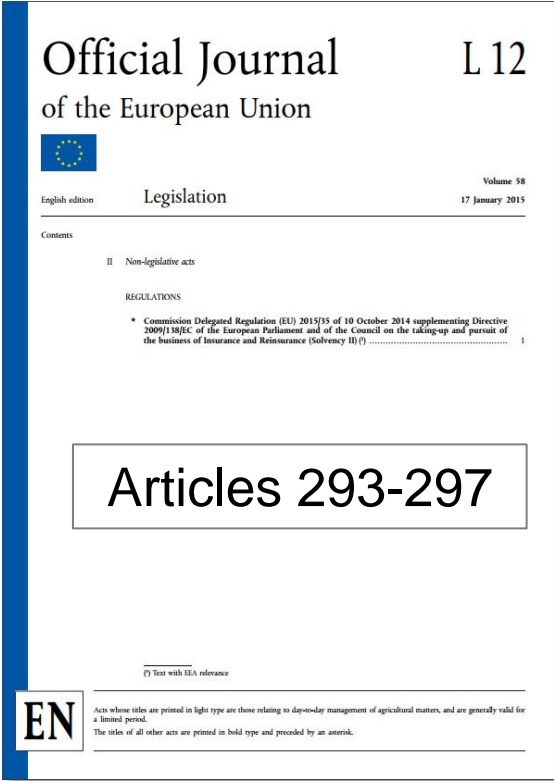
Cat Drummond
Laura McMaster

Agenda



- Background
- Constituents
- Areas of focus
- Key headlines
- Case study to improve your reporting
- Questions and further discussion

Background

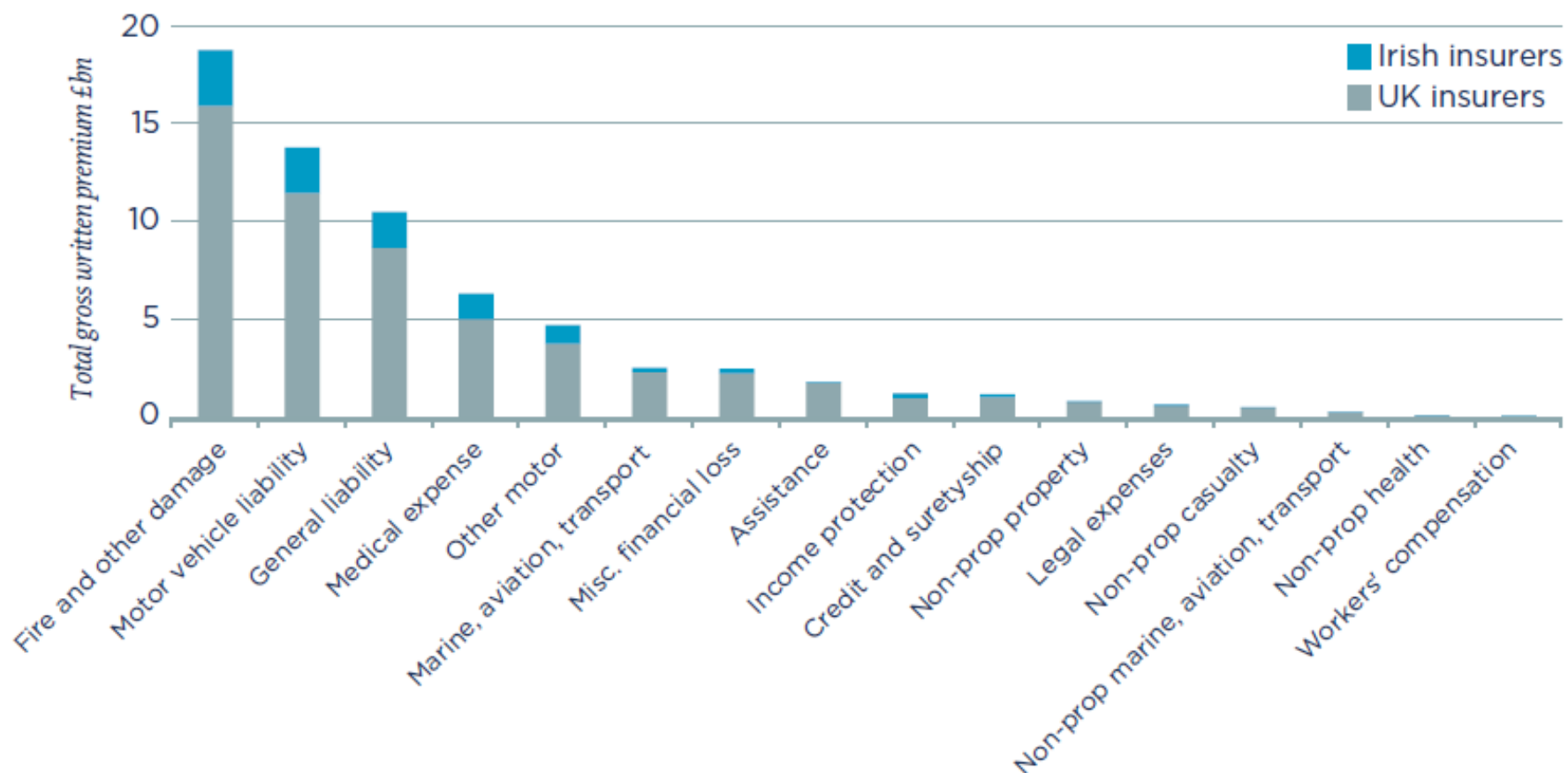


Constituents



Constituents

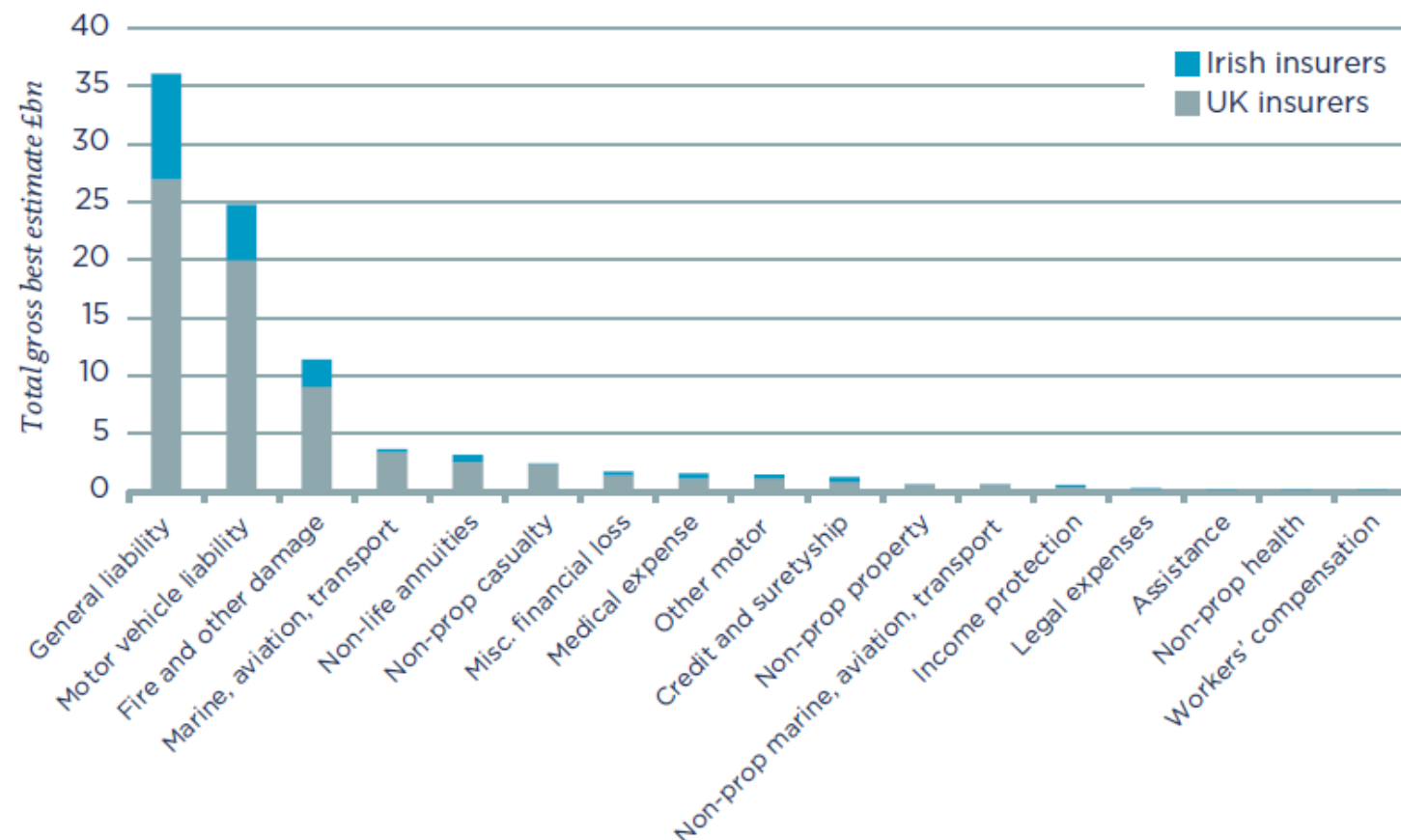
Gross written premium by SII LoB (non-life)



£65bn
non-life gross
written premium

Constituents

Gross best estimate technical provisions by SII LoB (non-life)



£87bn

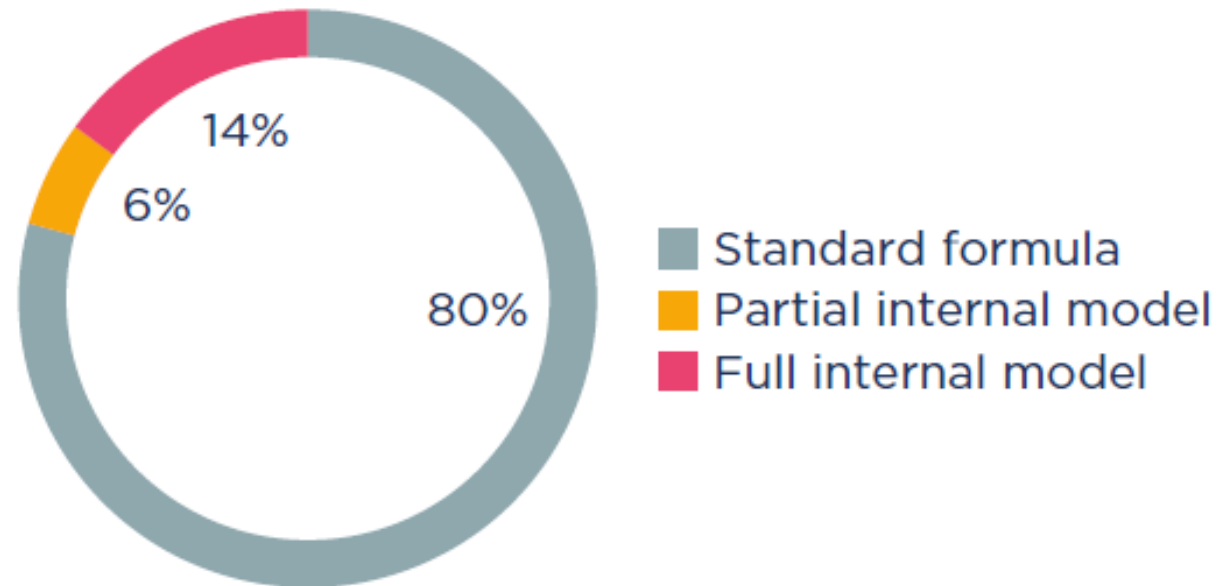
non-life gross best
estimate SII TPs

£3bn

gross best estimate SII
TPs for annuities
stemming from non-life

Constituents

Percentage of firms using SF/PIM/IM

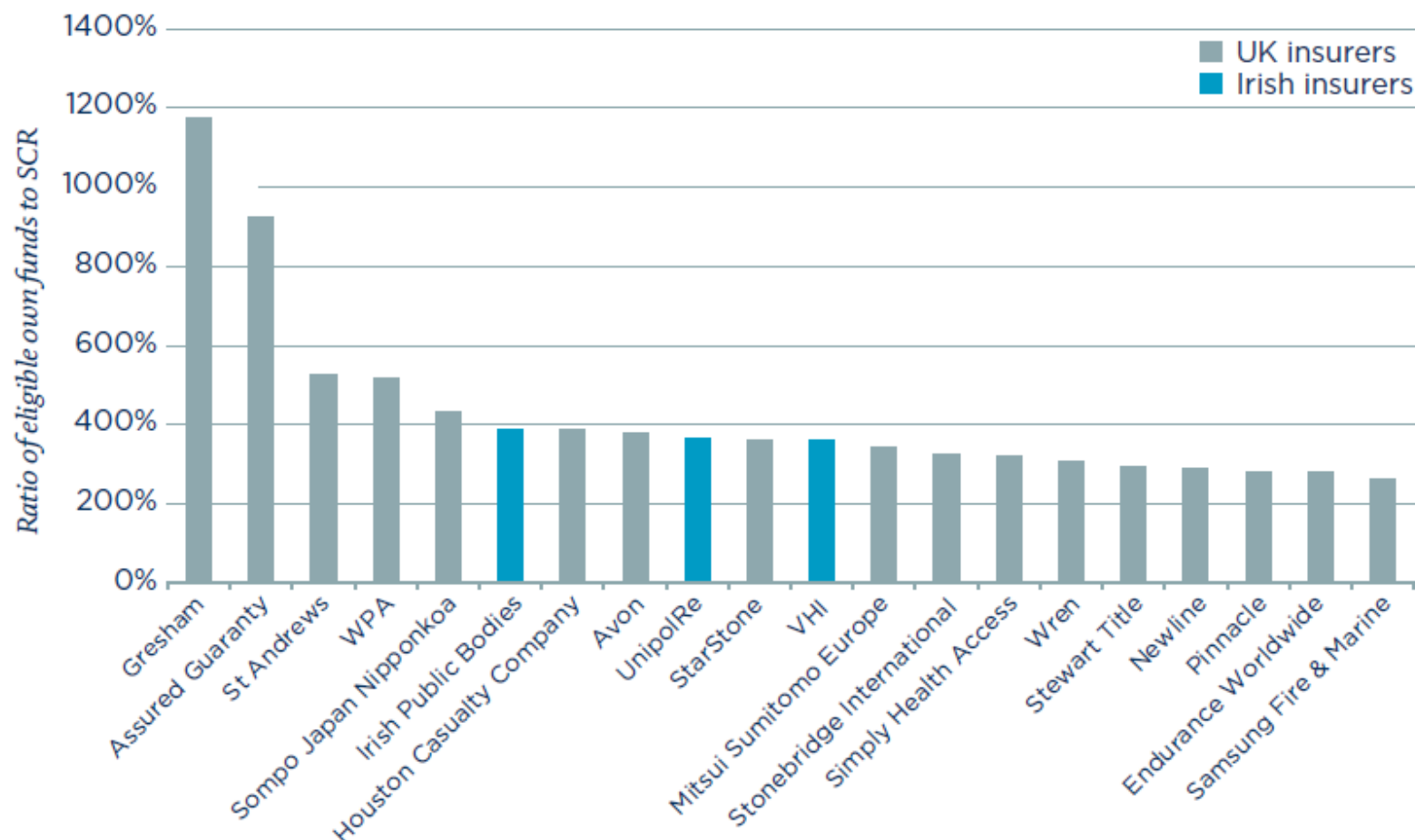


Areas of focus

- ✓ Capital strength
- ✓ Key risks faced by insurers
- ✓ Quality of reporting
- ✓ Tips and trip hazards
- ✓ Investments
- ✓ Risk margin

Capital strength

Eligible own funds ratio - top twenty

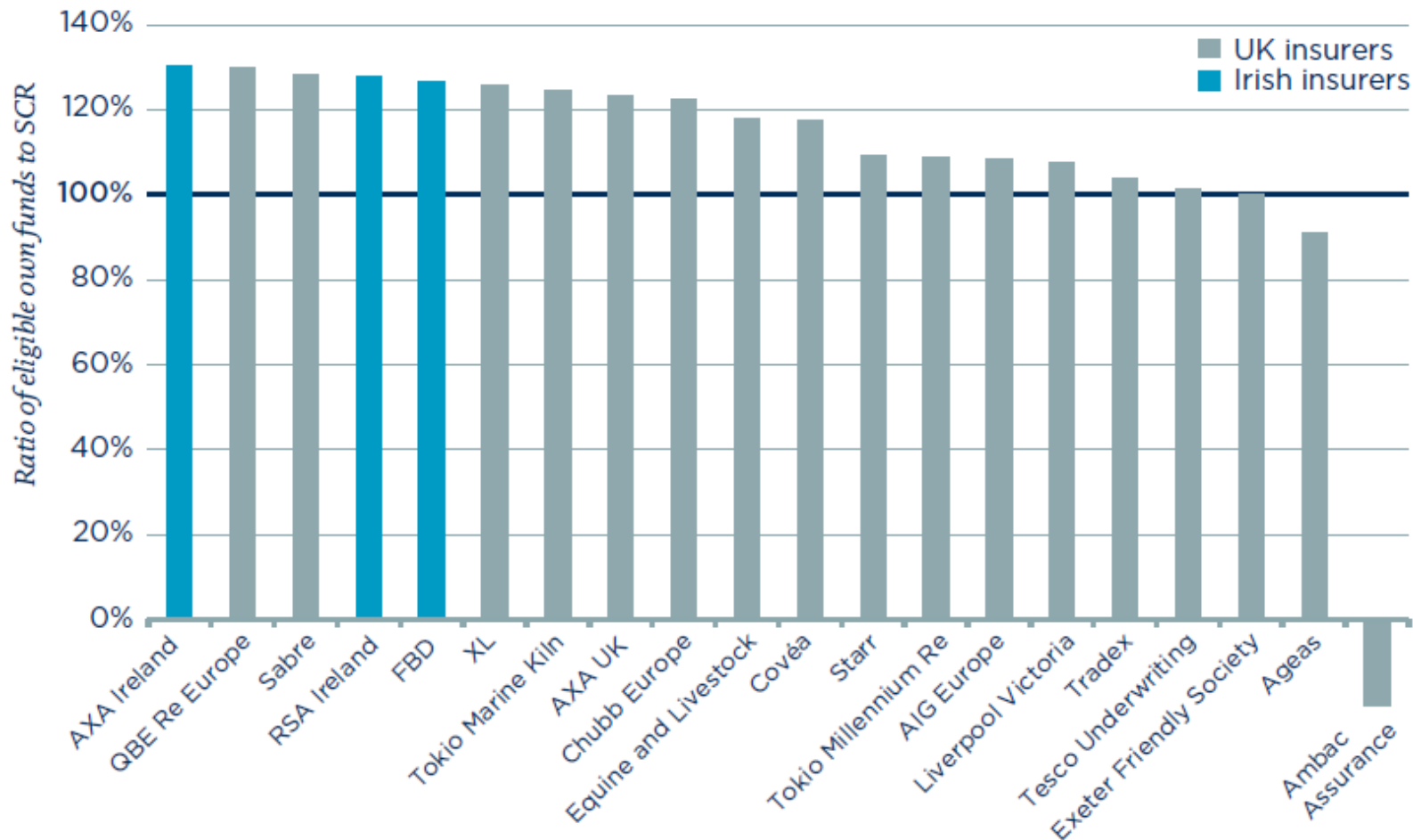


427%
average ratio
of top twenty

206%
average ratio

Capital strength

Eligible own funds ratio - bottom twenty

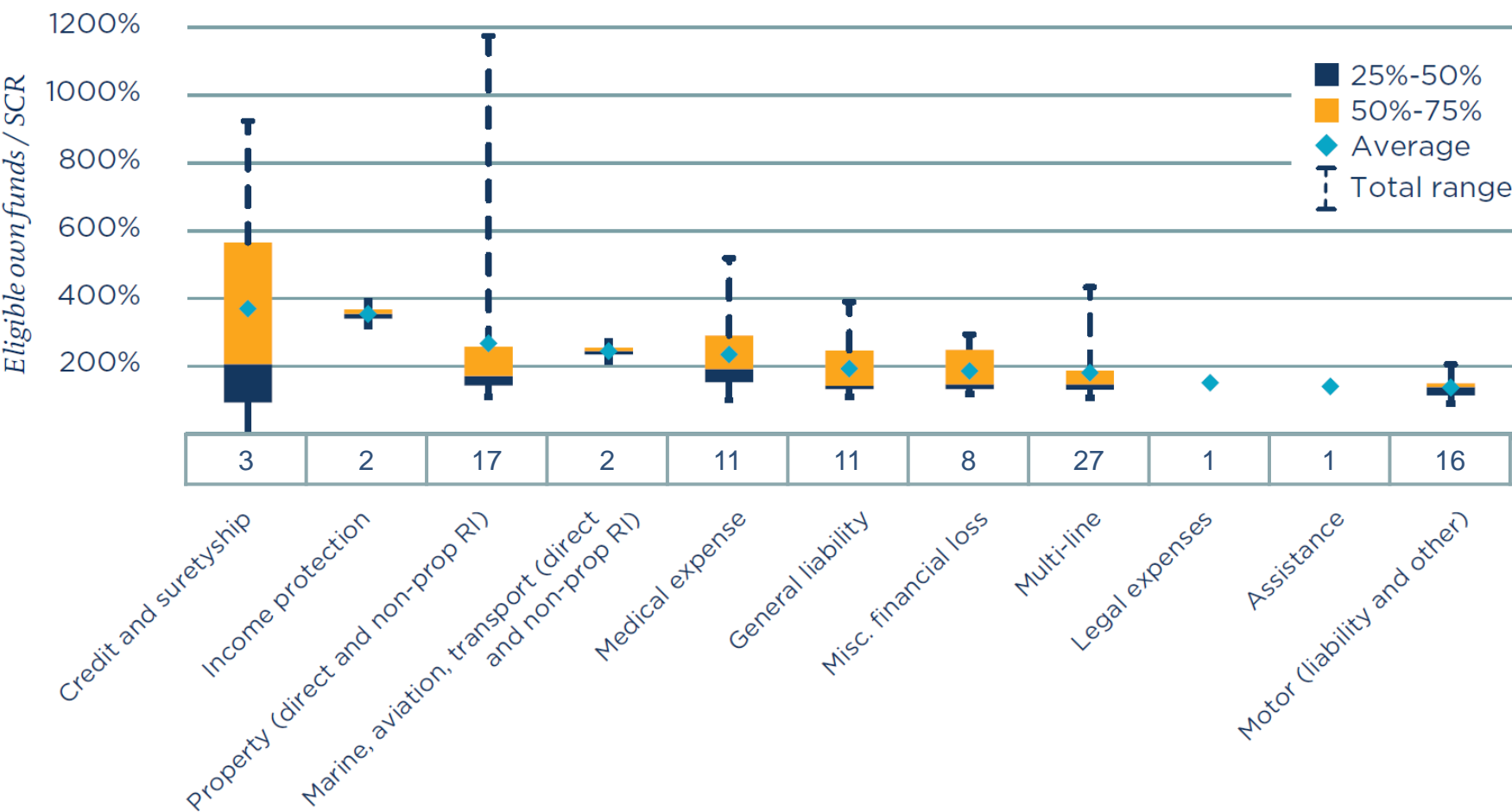


109%
average ratio
of bottom twenty

206%
average ratio

Capital strength

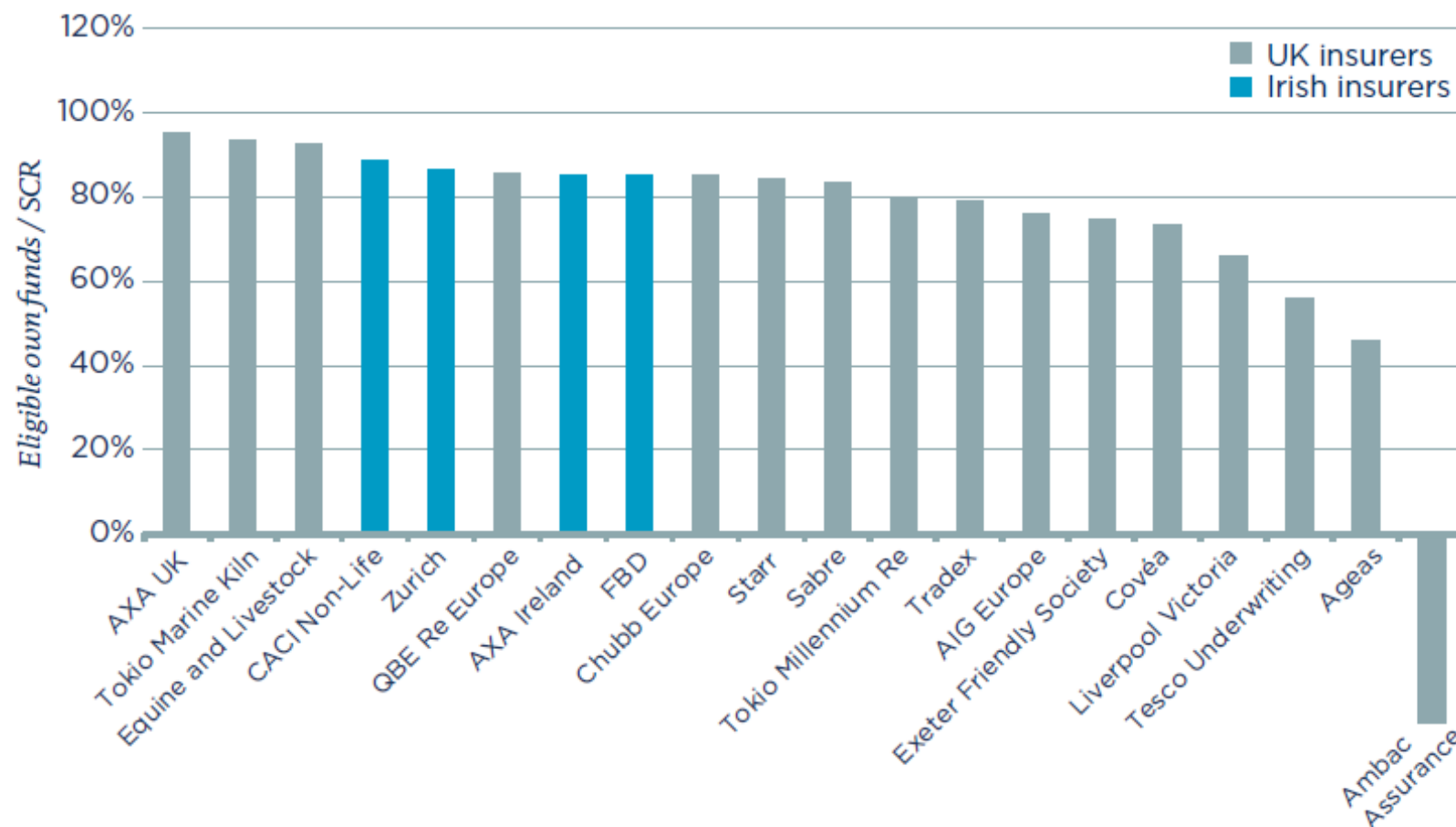
Eligible own funds ratio by insurer type



Allocated to SII LoB if firm wrote more than 50% of GWP in that line, otherwise “Multi-line”

Capital strength

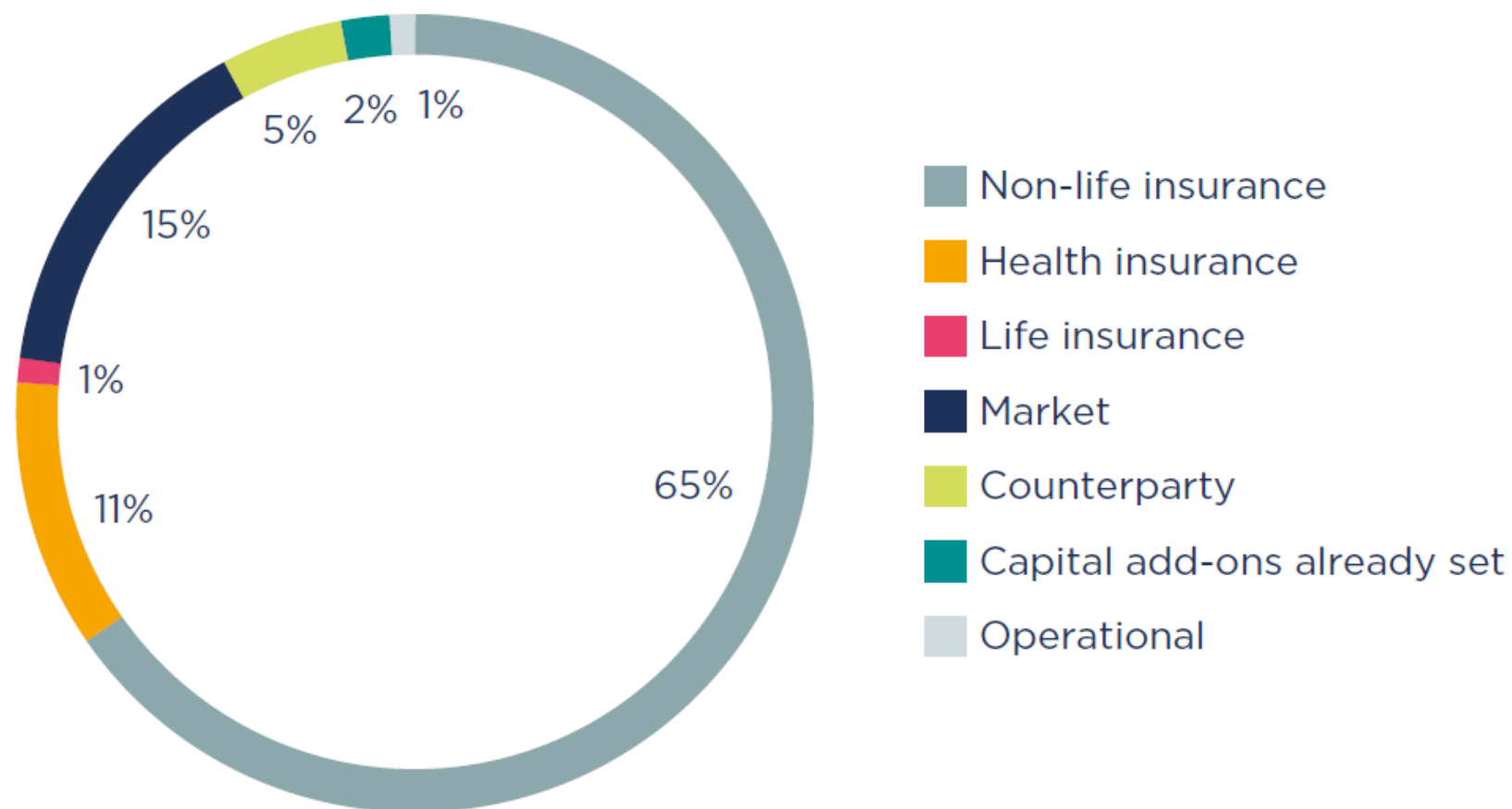
Eligible own funds ratio after a loss equal to MCR - bottom twenty



23% of firms had a 15% chance of breaching their SCR over a 1 year period

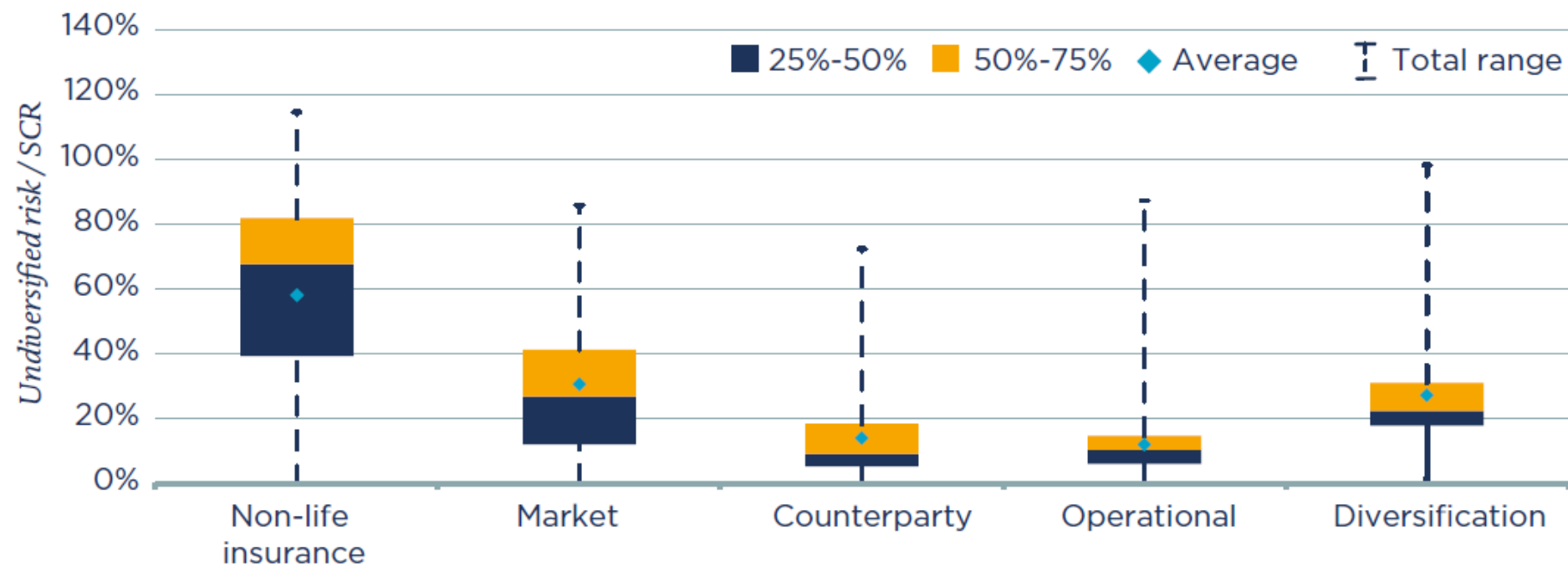
Key risks faced by insurers

Percentage of firms by largest risk area



Key risks faced by insurers

Undiversified risk as a proportion of diversified SCR



Key risks faced by insurers



23% see Brexit as
a key risk



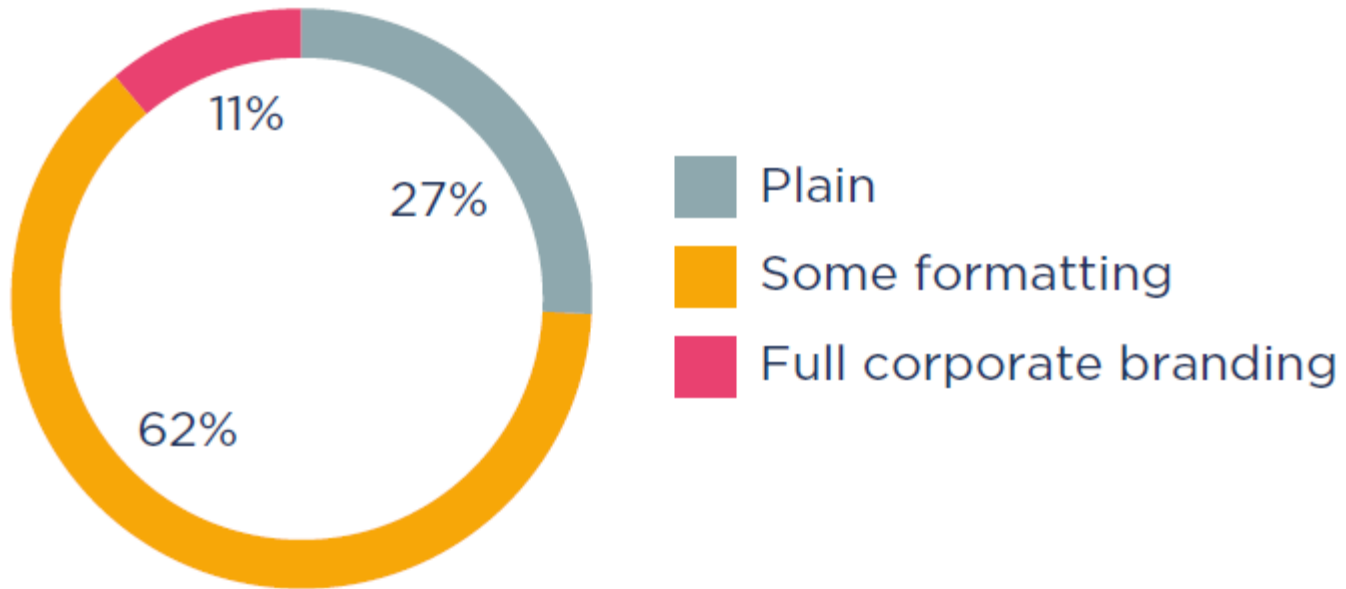
36% noted Ogden
discount rate change



Around a third
had defined benefit
pensions

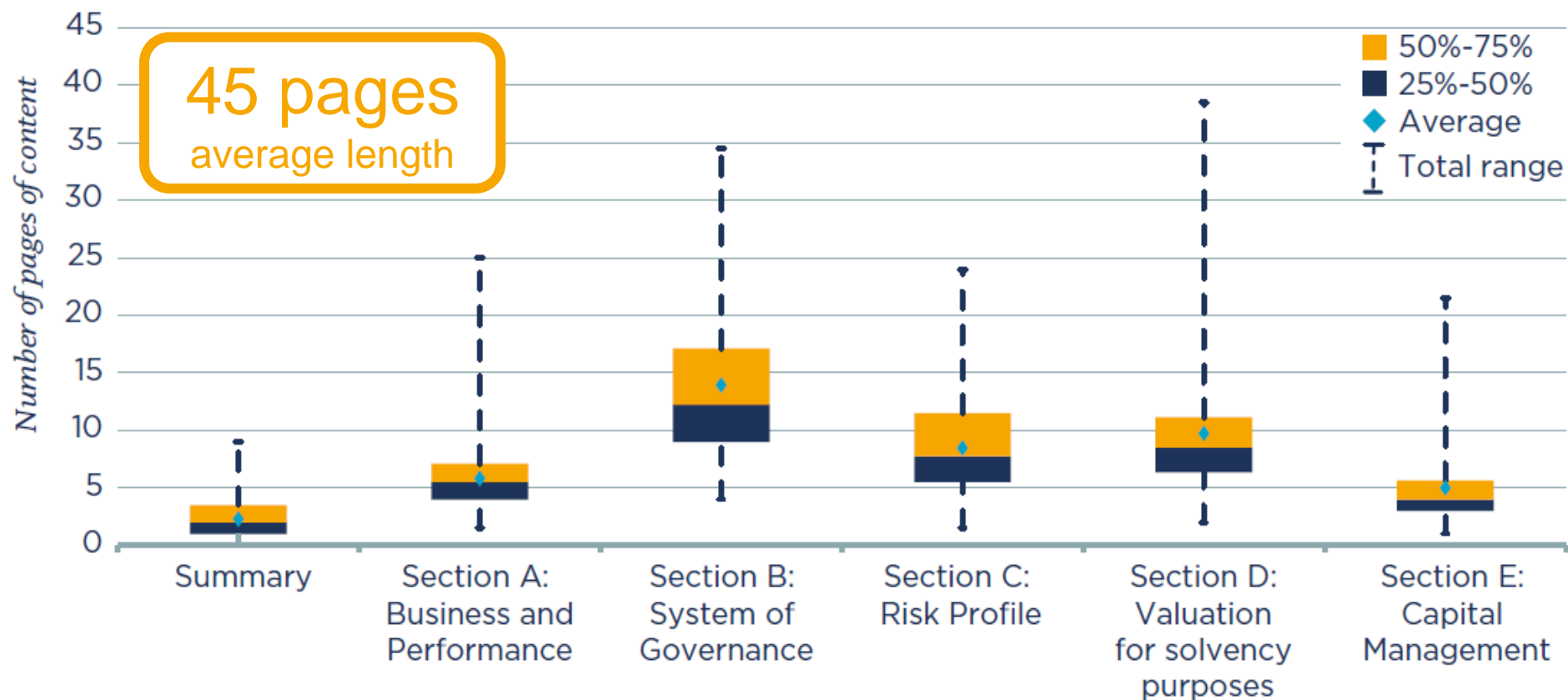
Quality of reporting

Look and feel



Quality of reporting

Length of each section



Quality of reporting



Quality of reporting



The good

- Glossaries
- Specific not generic
- Branded
- Easy to find



The bad

- Compliance
- Uncertainty, S&S
- Outsourcing, EPIFP
- Errors in QRTs



The ugly

- File quality
- Legibility

Case study

Company
logo here

Summary	
32	Pass
33	Possible improvements
10	Significant improvements
10	Fail
12	N/a
97	Total

V[x], dated [DATE]

Article	Title	Para	Sub para	Sub para 2	Detail	Page number	Section number	Status	Comments
294	System of governance	1	a		1.The solvency and financial condition report shall include all of the following information regarding the system of governance of the insurance or reinsurance undertaking: (a) the structure of the undertaking's administrative, management or supervisory body, providing a description of its main roles and responsibilities and a brief description of the segregation of responsibilities within these bodies, in particular whether relevant committees exist within them, as well as a description of the main roles and responsibilities of key functions;	16-18	B.1, B.1.1	Possible improvements	The structure of the AMSB and description of roles/responsibilities is generally well covered. The descriptions of the sub-committees could be improved, as not all that are included in the main governance diagram are discussed in the supporting narrative.
294	System of governance	1	b		(b) any material changes in the system of governance that have taken place over the reporting period;	18	B,1.2	Pass	Meets the requirements. Very clear.
294	System of governance	1	c	i	(c) information on the remuneration policy and practices regarding administrative, management or supervisory body and, unless otherwise stated, employees, including: (i) principles of the remuneration policy, with an explanation of the relative importance of the fixed and variable components of remuneration;	18	B.1.3	Significant improvements	Current narrative explains that pay is split between a fixed and variable element, but does not explain the importance (weighting) given to each component (eg stating the limits of variable pay as a percentage of fixed pay).
294	System of governance	1	c	ii	(ii) information on the individual and collective performance criteria on which any entitlement to share options, shares or variable components of remuneration is based;	18	B.1.3	Possible improvements	Generally meets the requirements. Could be improved by explicitly stating that there are no share option elements of remuneration.
294	System of governance	1	c	iii	(iii) a description of the main characteristics of supplementary pension or early retirement schemes for the members of the administrative, management or supervisory body and other key function holders;	19	B.1.3	Pass	Meets the requirements.
294	System of governance	1	d		(d) information about material transactions during the reporting period with shareholders, with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body.	19-20	B.1.4	Possible improvements	This section could be improved by: - Explicitly stating materiality threshold referred to in supporting narrative. - Explicitly stating that there have been no material transactions during the reporting period with shareholders, with persons who exercise a significant influence on the undertaking, or with members of the AMSB. - Removing the first section in the narrative, which appears to be redundant.

Case study

Summary by reporting area

Section of report	Pass	Possible improvements	Significant improvements	Fail	N/a	Grand Total
Summary				2		2
Business and performance	5	5	1	2		13
System of governance	9	9	3			21
Risk profile	2	6	3	3		14
Valuation for solvency purposes	2	8	3	2		15
Capital management	14	4		1	12	31
Additional voluntary information		1				1
Total	32	33	10	10	12	97

Percentages

Section of report	Pass	Possible improvements	Significant improvements	Fail	N/a	Grand Total
Summary	0%	0%	0%	100%	0%	100%
Business and performance	38%	38%	8%	15%	0%	100%
System of governance	43%	43%	14%	0%	0%	100%
Risk profile	14%	43%	21%	21%	0%	100%
Valuation for solvency purposes	13%	53%	20%	13%	0%	100%
Capital management	45%	13%	0%	3%	39%	100%
Additional voluntary information	0%	100%	0%	0%	0%	100%

Helps you focus your efforts and to see which sections require improvements

Overall summary

Status		Percentage
Pass	32	33%
Possible improvements	33	34%
Significant improvements	10	10%
Fail	10	10%
N/a	12	12%
Total	97	100%

Provides a high level summary view

To answer the question...

Pillar 3: Supporting market understanding or just holding us up?

Answer: Both!





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Questions

Comments

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