The Actuarial Profession making francial sense of the future

Update from the FSA

Tony Brooke-Taylor Barbican, Tuesday 16 May 2006

Update from the FSA

Agenda:

- Brief ICAS Update
- Solvency II
- Hot Topics Roundup

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Brief ICAS Update

Key Themes:

- ICGs given, observations, issues emerging
- High-level Principles and Expert Group
- Integration into Arrow II



Brief ICAS Update

ICA Reviews and ICG Progress:

•64 ICGs given; on track for mid-2007 completion

Observations and issues (update on Sector Briefing)

- 'Embedding' in the business ICA model and other risk models
- Time horizon and confidence level 'equivalence'
- Run-off assumptions (risks and expenses)
- 'Realistic' asset and liability valuationsAllowance for future profits
- Allowance for future pro
 Allowance for cycles
- Pensions and Taxation
- What do we do when nobody knows the answer?

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Brief ICAS Update

High-level Principles and Expert Groups:

 Insurance Standing Group agreed to the formation of Expert Groups (Life and GI)

- Objective is to address the questions left open
- Monthly meetings since January
- Very useful and open conversations
- Objective: to set out 'high-level principles' for internal models
 - Everyone can sign up
 - All points of debate can use them as a frame of reference



Brief ICAS Update

Integration into Arrow II:

- Arrow assessment already informs ICG
- ICA review to become integral to risk assessment
- Interaction is already there if not synchronous
- New timetabling to work towards synchronisation



Solvency II

Key Themes:

- Update on CEIOPS position
- FSA view on important questions
- QIS II

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Solvency II

Objectives of Solvency II:

- Modernise approach to assessment of liabilities and capital requirements for insurance companies
- For this purpose, take account of all relevant risks and uncertainties within insurance business, in a proportionate and cost effective manner
- Compatible with likely IAS framework, and with other financial sectors
- Incentivise good risk management within insurance firms, including internal modelling

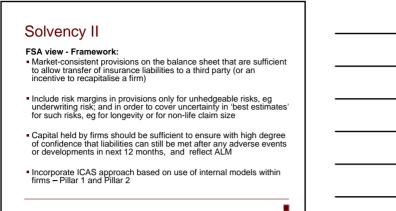
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Solvency II

EU Commission's 'Straw Man':

- Provisions set with 75% confidence over run-off, or by application of cost-of-capital approach based on SCR
- Pillar 1 SCR capital requirement based on 99.5% VAR over 1 year for market, credit, u/w and operational risks – may include appropriate use of internal models
- Pillar 1 MCR is a lower trigger for mandatory supervisory action
- Pillar 2 review process for risks not adequately covered by SCR (and an assessment of overall risk management)
- Pillar 3 disclosure requirements





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Solvency II

Alternative views - Framework:

- Require high levels of prudence within provisions eg undiscounted plus additional margins
- Factor based approach to SCR that does not properly take account of ALM (or bonus changes)
- Minimum floor on unearned premium provisions, and for surrender values
- Quantitative hard limits on investments

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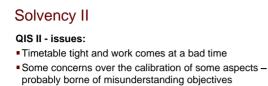
Solvency II

QIS II - objectives:

- Look at impact on individual entities of possible overall Solvency II framework, covering

 - Practicability of calculations
 - Effect on level of capital needed by firms
 - Suitability of approaches for establishing capital requirements
- Information to assist in further development and calibration of SCR and MCR





- Other concerns about the way the information might be used (e.g. tax)
- These problems will not go away because you don't participate – and you will have far less opportunity to influence the framework that will be compulsory.

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Solvency II

QIS II - resources:

FSA resolution of pre-test general queries
 This will be developed as we resolve queries
 http://www.fsa.gov.uk/Pages/About/What/International/solvency/index.shtml

Dedicated email address for QIS 2 queries

QIS2@fsa.gov.uk

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Hot Topics Roundup

Key Themes:

- Contract Certainty
- Catastrophe Models
- Collateralisation
- Reinsurance Directive
- Authorisations

