

**Pole Vaulting
without a Pole**

Stephen Wilcox &
Mat Wheatley

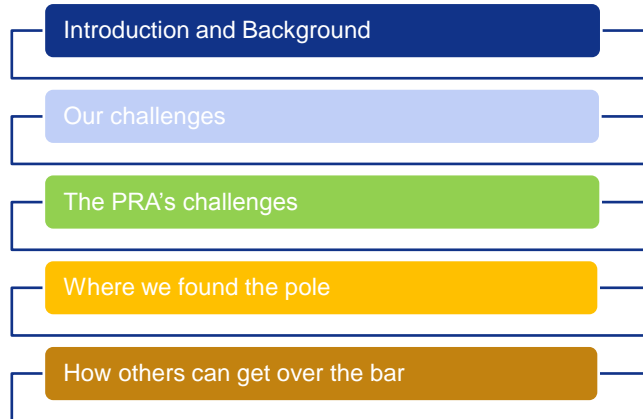


Pole-vaulting





The IMAP story



3



Introduction

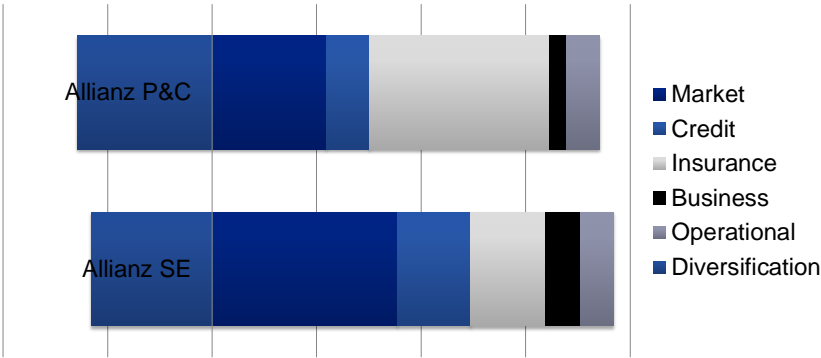
- Share our experiences
- Consultant & Company view
- One of the first into IMAP, and the first due to come out the other side
- Not just relevant for IMAP firms, we hope
 - Lessons here for anyone trying to implement common risk management and risk capital standards across a group
 - Especially where there are third-party constraints

4

Introduction

Allianz risk profile

Allianz is a federated group of legal entities; HQ is Munich
Allianz UK is a pure UK P&C insurer



Source: AZSE 2014 accounts

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5

Introduction

Our UK Solvency journey

2006 – ICA. Very well capitalised

2008 – ICA. Very well capitalised

Solvency II programme launched by the PRA at actuarial conferences

2010 – ICA. Very well capitalised

2012 – Pension risks in ICA. Well capitalised.

2014 – PRA starts raising the bar quickly. ICAS+.



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6

April 2014



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7



8

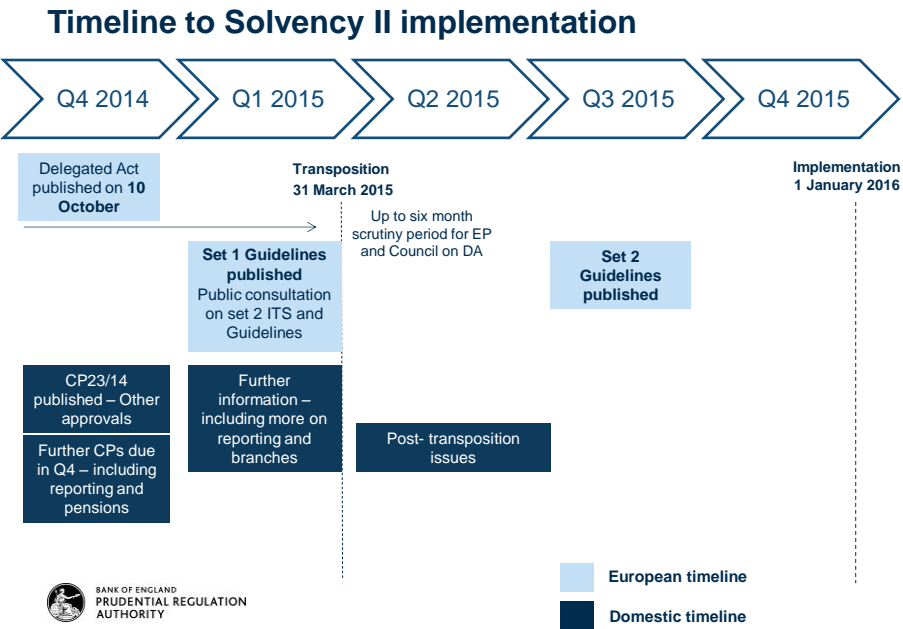


Introduction
Reminder of the Solvency II journey

- A lot of activity in 2010-2012
 - Pre-IMAP
 - A lot of firms in the process
 - Lloyd's of London moved to a 'principles based' Solvency II regime
- Less activity for much of 2013
 - Focus shifted to serving the business
 - ICA+ regime
- Dramatic increase in activity in 2014
 - Three years in six months
 - Bar raised
 - Steady reduction in number of firms seeking day-one approval

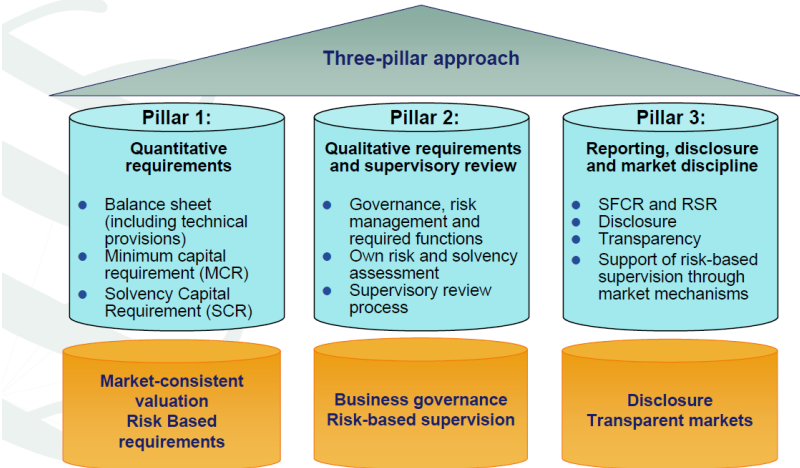
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9



10

The three pillars



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6

11



12



Our challenges – What really matters?

- It's a principles based process, but the number needs to be 'right'
 - PRA appears to have an idea of the "right" answer, but won't share it
- The regulation is principles-based, but it's increasingly prescriptive
 - The bar is being continually raised as best practice becomes not good enough
 - One person's "best practice" is another's bureaucratic red tape
- We're actuaries. So we and the PRA's actuaries need to maintain professional standards and objectivity
 - And we're not necessarily the most rounded of professionals – actuaries have blind spots
- We're part of a Group. We can't jeopardise the Group process but the model needs to be appropriate for the UK

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13



Our challenges: Principles versus ~~Cash~~ Capital

Solvency II is strictly a best estimate neutral regime...

- Except when it someone's uncomfortable, when it becomes conservative

Solvency II is driven by the Board...

- But the Board are not modellers, and the UK Board runs 3% of the Group

Solvency II is calibrated to the 99.5th percentile VaR...

- Which is a difficult concept to communicate and has huge model risk

Solvency II demands huge investment of time and money from both firm and PRA...

- But no-one wants the PRA to spend any more money than they have to – their fees are high enough already, and come out of policyholders' pockets

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14

Our challenges: What does the PRA actually want?



PRA operating model:

- Senior managers make decisions
- Technical specialists provide advice
- Relationship managers implement decisions and communicate to customers
 - (a bit like an insurance company...)

Result

- Slow decision-making – policy being published during IMAP finalisation
- Disjointed communication – and lots of it

The IMAP process is too big for one individual to manage comfortably, even if they are the world's best project manager

The PRA doesn't employ the world's best project manager as a supervisor or line actuary for a low-risk firm

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15



16



The PRA's challenge

Important to understand where they are coming from.

- Comfort before giving away the keys
- They can not be as blunt as they would like
- They need to get wider buy-in within PRA
- Needing to apply the same criteria to all firms they supervise

More practically

- They *have* to be able to see and evidence compliances
- If they see a potential issue, they *have* to follow-up

What happens if it goes wrong

- What will firms do if they feel they have been wrongly rejected?
- Who will get the blame if an IMAF successful firm can't pay policyholder claims?

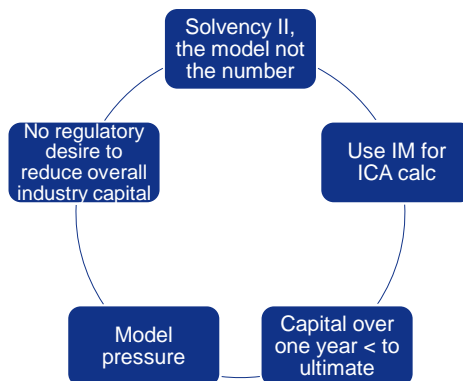
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17



The PRA's challenge

- PRA has to square the circle
- No capital loads allowed under Solvency II IMAF
- Greater scepticism around models at the bank of England?
- The PRA panel will compare with the wider market



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18



The College challenge

UK regulator's position is very different to the rest of Europe

Germany

- Three IMAP applications
 - One international group
 - Two reinsurers with few overseas subsidiaries
- Focus on industrialisation
- Focus on central modelling and global relevance
- Focus on process

UK

- >40 IMAP applications
 - Several international groups
 - Few companies with overseas parents
- Focus on individualisation
- Focus on local relevance
- Focus on evidence
- Focus on pragmatism where possible

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19



The College challenge

PRA not always setting the bar highest

Who manages the college, the lead supervisor?

- Don't assume it will be the lead supervisor
- Little incentive for lead supervisor to force closure of issues
- Challenging for the college to be a decision making process

Often end up having to satisfy both supervisors

The College of Supervisors is very challenging to manage:

- *Each supervisor has to have their say.*
- *There are cultural-linguistic challenges.*
- *Some supervisors have particular bugbears.*
- *Some supervisors just don't participate.*

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20



How regulators can help us find the bar

- Be blunter, tell us what you think
- Communicate big issues earlier
- Try to resolve issues sooner
- Recognise uncertainties
- Help firms prioritise

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21



Directors' Conference 2014
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22



Where did we find the pole?

Lots of engagement

- The regulator is one of our biggest and most important customers
- I have a PRA customer relationship manager in my team

Being open and pragmatic

- Accept that the regulator will find it difficult to give up control
- Understand that there are complex power dynamics at play in the PRA
 - Old Bank of England vs old FSA
 - Moorgate vs HQ

Helping the PRA

- I don't like the supervisory model, but that's weather
- I can't manage the weather, but I can dress appropriately

Getting Allianz Group Centre to understand PRA's attitude and approach

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23



How we borrowed the Group pole

Allianz SE

- Dominated by investments (€486bn balance sheet)
- Key risk – embedded guarantees in European life products
- Key risk aggregates across the world

Allianz UK

- Dominated by insurance (£2bn per year GWP)
- Key risks – nat cat, motor PPOs, reserving
- Key risks are UK-specific and diversify across the world

Tactics:

Be a successful company whose strategy is in line with the Group's

Be on top of everything

Include the Group in discussions with the PRA to understand the UK reality

Engage constructively at all levels with the Group

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24



How other firms can get over the bar

Get the basics right

- Answer the exam question - deliver what is required, not what you wish was required
- Make sure you have a credible model and governance

Pick your battles

- It's worth losing a battle to win the war...
- ...but a Pyrrhic victory isn't worth winning – it might be better to withdraw gracefully but undefeated

Be pragmatic and helpful

- You know that line about helping your supervisor to represent you to their bosses? It's true!
- Accept that your supervisors don't really know what is required, and help them to come to a conclusion that works for them

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25



And the biggest lesson for me...

Internal Model Approval is not an actuarial job

I have had:

- A lawyer as customer relationship manager and model governor
- An actuary who's expert in models but doesn't do any modelling as co-ordinator and technical lead
- A junior quant managing data flows
- A contact centre employee co-ordinating documentation
- An internal auditor organising delivery of material
- And me – an actuary who is glad he's left the techie stuff behind, and who is reasonably fluent in writing as project lead

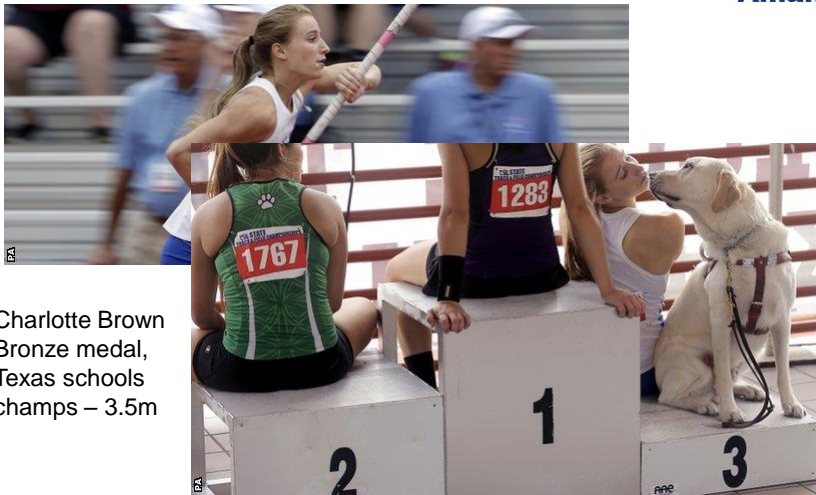
The IMAP team is a microcosm of the insurance company

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26



27



Charlotte Brown
Bronze medal,
Texas schools
champs – 3.5m

28

Conclusion



Ask us in August!



And we'll be repeating the process next year. And the year after.
And the year after that....

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29