



Institute
and Faculty
of Actuaries

Solvency II and Credit Ratings

Sam Mageed
David Prowse

3 November 2016



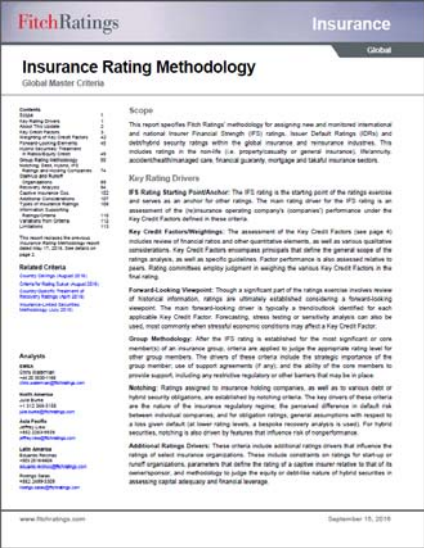
Credit Ratings – What and Why?



FitchRatings

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Insurance Ratings – One Simple Document



How We Apply Rating Methodology



Main Rating Factors for Life Insurers

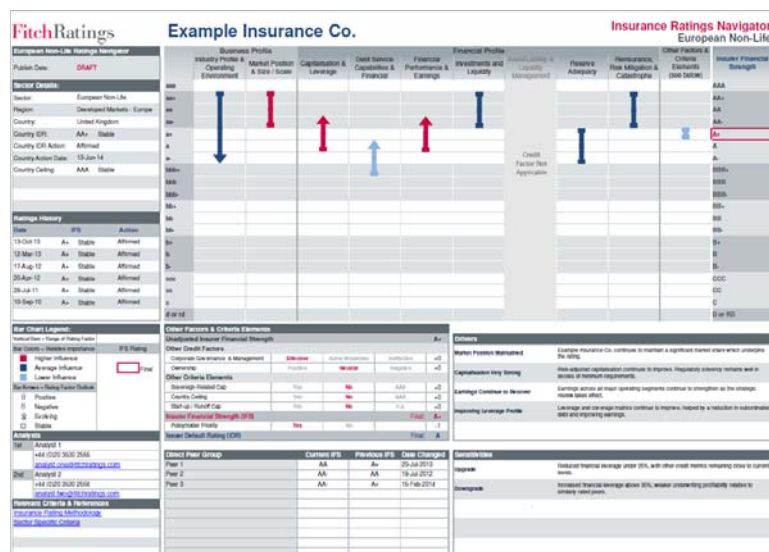
Main Qualitative Factors

- Sovereign and country-related constraints
- Industry profile and operating environment
- Business profile
- Ownership
- Corporate governance

Main Quantitative Factors

- Capitalisation and leverage
- Debt service capabilities and financial flexibility
- Financial performance and earnings
- Investment and asset risk
- Asset/liability and liquidity management

Rating Construction at a Glance – “Navigator”



Capital – One of Many Credit Factors

Main Qualitative Factors

- Sovereign and country-related constraints
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Main Quantitative Factors

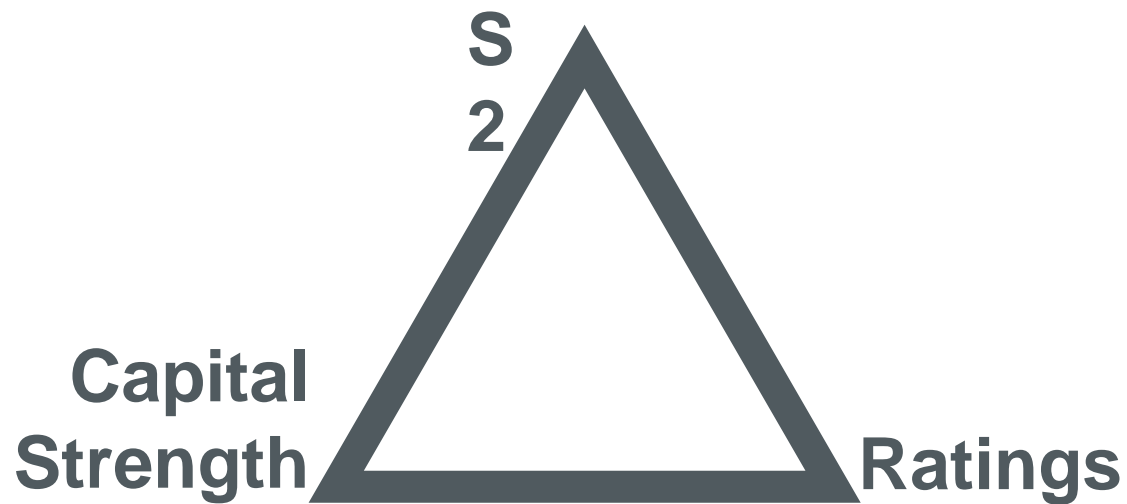
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Capital Strength

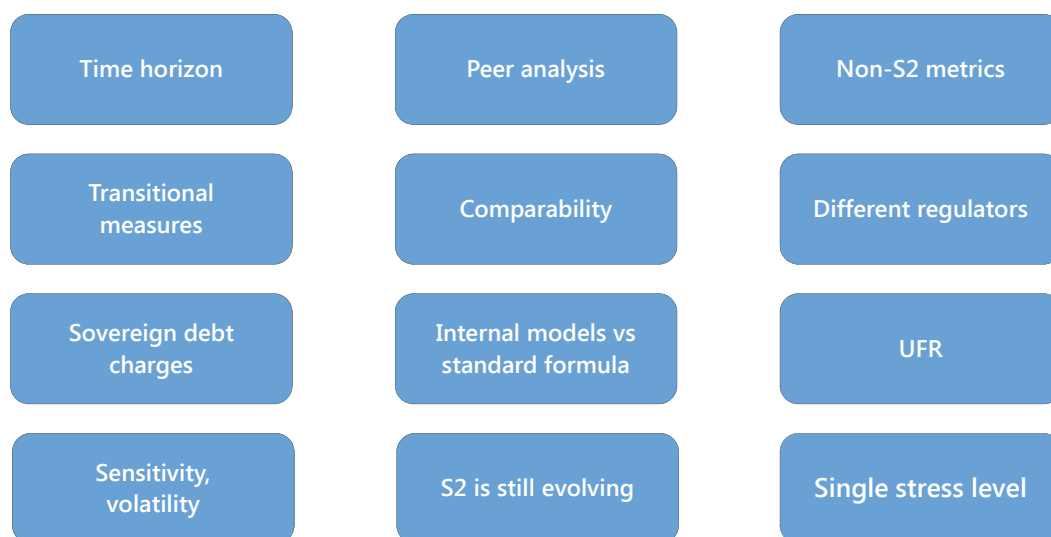


Ratings

S2 in Ratings...



S2 – Several Drawbacks



Industry Views

"The ultimate objective of S2 to make everything comparable and transparent has not really been achieved."
CEO of Aegon, Alex Wynaendts

"Our major concern is the pro-cyclical effect of reducing the UFR."
Chief Executive Director of Bafin, Frank Grund

"It is not tenable anymore to say we have a risk-based system without looking at sovereign bonds"
Chairman of EIOPA, Gabriel Bernardino

"The headline ratio does not tell the true story."
CFO of Standard Life, Luke Savage

"Some supervisors expect companies to conform with a number 100% higher than the SCR, which is ridiculous"

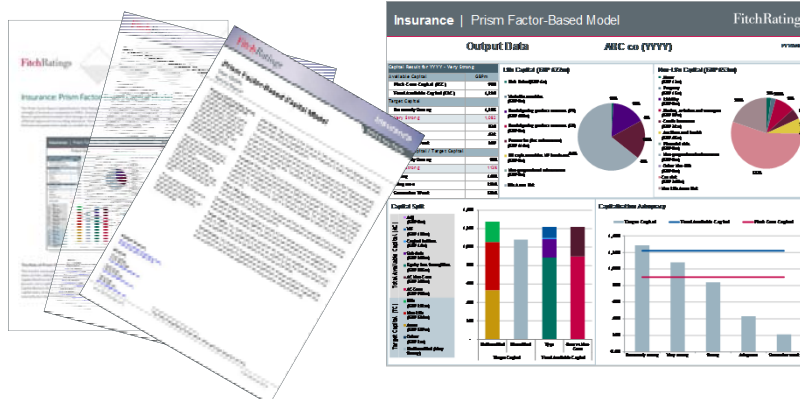
"It does not follow that you have to have a similar regime to be equivalent."
CEO of the PRA, Sam Woods

"It is a major source of irritation that S2 has cost a total of about £500m. I think this figure is outrageous, frankly."
CEO of Aviva, Mark Wilson

"The analyst community continues to have grave concerns over the comparability and relevance of insurance company results"

"S2 will bring volatility. We all knew that from the beginning. Let's not be naïve"

Fitch's Prism Capital Model



Factor-based capital model

- Measure of insurer's capital strength
- Risk-based capital model
- Comparable across different markets
- Transparent
- Publicly available

Prism and S2 – Similar Principles, But...



One Prism Model vs Multiple S2 Approaches



Sovereigns – Risk Free?



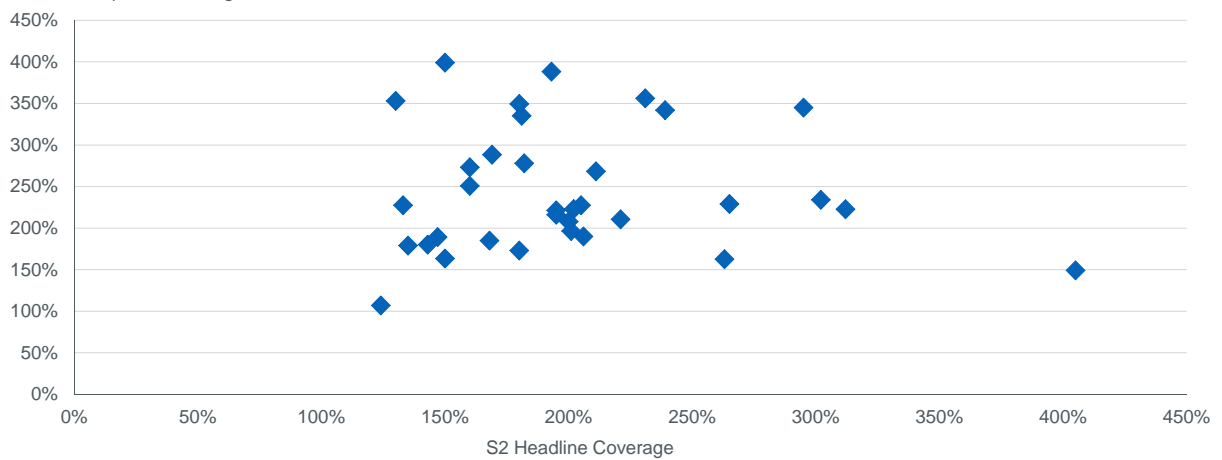
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Prism vs S2 – Correlation is Weak

EMEA Issuers, end-2015

Prism "Adequate" Coverage



Source: Fitch, Companies

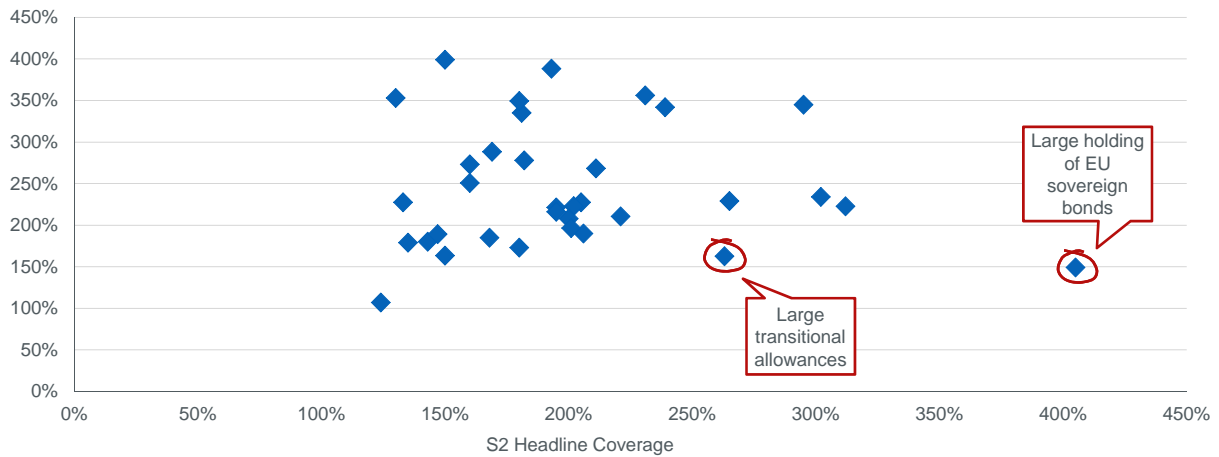
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Observations

EMEA Issuers, end-2015

Prism "Adequate" Coverage

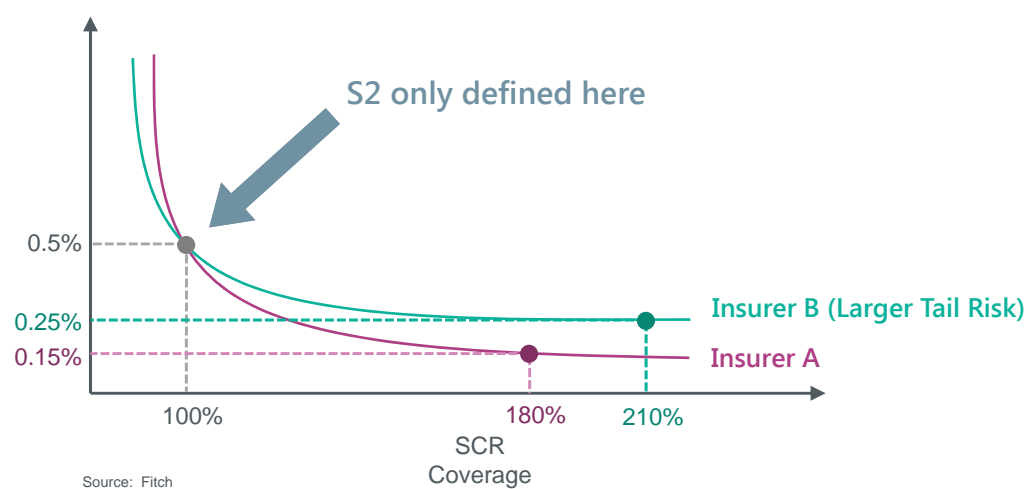


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SCR Coverage Can be Misleading

Probability of Default



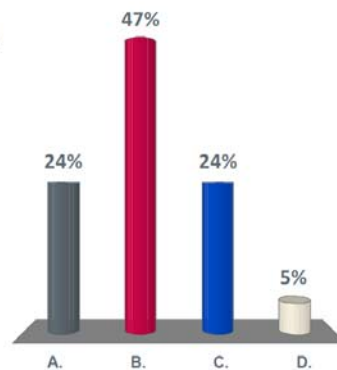
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Analyst Views

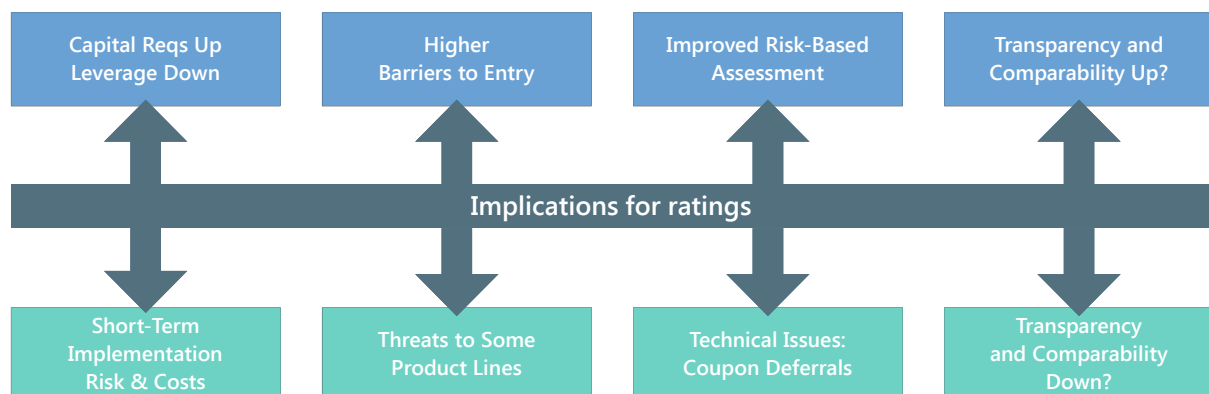
What is the Most Meaningful Capital Metric?

- A. S2 with transitionals
- B. S2 – without transitionals
- C. Rating agency metrics
- D. Other



Source: Fitch Insurance Roadshow, 28 January 2016 – Analyst Survey

S2 Rating Implications – Broadly Neutral

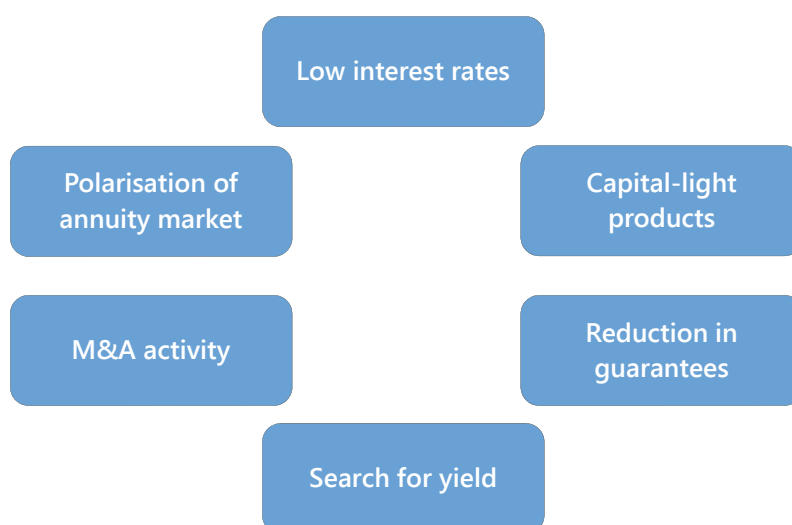


Market Reactions to S2



- Strong
- Volatile
- Difficult to compare

S2 has Accelerated Existing Trends



S2 Still Evolving

4.2%



3.7%



CONCLUSIONS

①

②

③



Related Research

Fitch S2 webpage:

<https://www.fitchratings.com/site/insurance/solvencyii>

Fitch Prism FBM webpage:

<https://www.fitchratings.com/site/insurance/prismfbm>

Invitation – Save the Date

Please also join us at Fitch's European Insurance Roadshow

Thursday 26th January 2017, London



Ask the presenters or check for details at www.fitchratings.com/events

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New York
33 Whitehall Street
New York
NY 10004

London
30 North Colonnade
Canary Wharf
London, E14 5GN

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