

## **Dynamic Solvency Testing**

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### **Background**

At last year's conference a paper on Dynamic Corporate Management was presented. Briefly, Dynamic Solvency Testing (DST) involves projecting a company's solvency position into the future under varying assumptions in order to assess its financial strength and identify the major risk factors affecting the company. DST exercises can also be included in the strategic framework by using models to project future returns and assess the degree of risk involved in the company's plans. This workshop follows on from that paper and aims to demonstrate on PC a practical example of DST and to discuss its relevance to the UK market. Clearly, last year's paper is recommended reading for the workshop. The agenda for the workshop is as follows:

### **1 The practical approach**

**1.1 What are the problems in determining assumptions?**

**1.2 Are the results self-evident?**

- 1.3 What are the weaknesses of the method? Do delays in the financial impact of current strategy nullify its value?
- 1.4 The results of a DST analysis using a model hypothetical company will be demonstrated and participants invited to suggest scenarios which would identify the ability of the model to highlight areas of risk.
- 1.5 Would stochastic modelling add value? Is it preferable to deterministic modelling?

## **2 Broader issues**

- 2.1 Is there scope for an 'appointed actuary' role for non-life actuaries in the UK through this mechanism? Is this approach preferable to reserve certification?
- 2.2 Even if it is not a regulatory requirement, should DST be a regular part of the management process?

**2.3** How does DST compare to RBC as a basis for regulation or prudent management?

**2.4** Corporate management spin-offs.