

## GIRO XXX 2003 Convention

14-17 October 2003  
City Hall, Cardiff

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## FSA Capital Self-Assessment Julian Leigh

14-17 October 2003  
City Hall, Cardiff

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### FSA Capital Self-Assessment

- q Two pillars in CP190
  - q What are the implications of the ECR?
  - q How well-placed are insurers?
  - q Where does the ECR fall down?
  - q How should companies assess themselves?
  - q Urgent action

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### ECR Sample Results

- ↳ Returns came from database
- ↳ Largest 109 companies: discarded three
- ↳ Some anomalies

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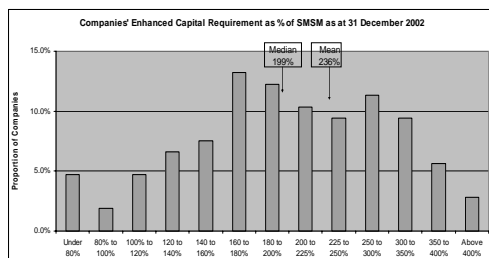
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### ECR as Proportion of SMSM



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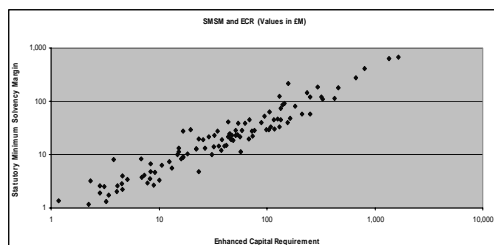
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### ECR as Proportion of SMSM



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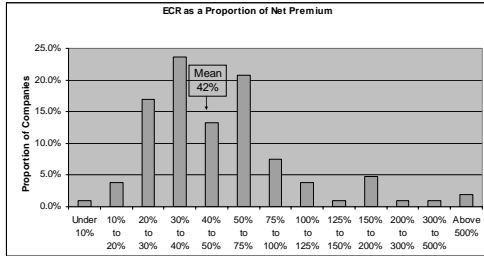
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### ECR as Proportion of Premium




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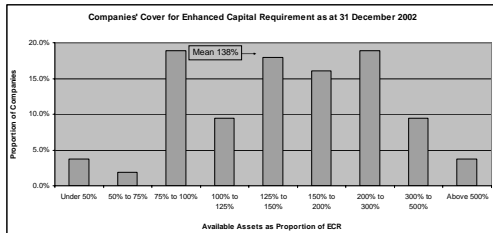
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### Do companies meet the ECR?




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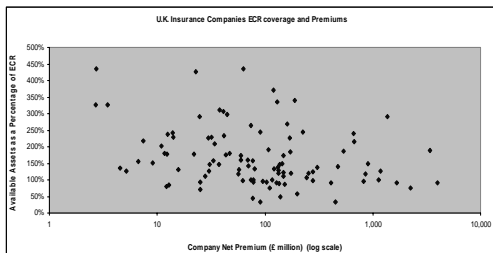
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### Are there patterns?




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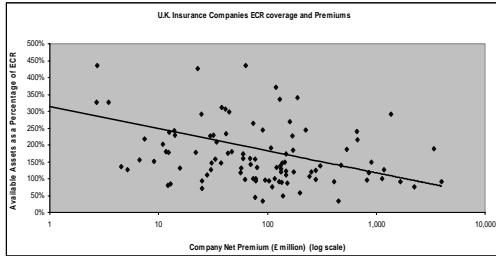
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Are there patterns?



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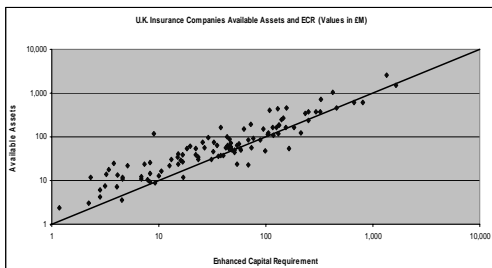
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Are there patterns?



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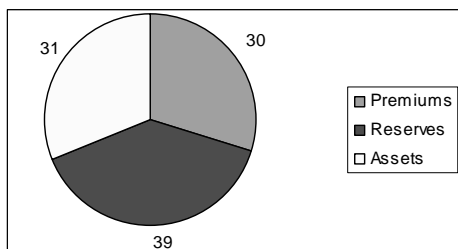
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Where does the ECR come from?



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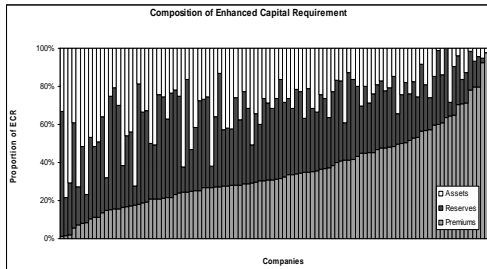
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### Where does the ECR come from?



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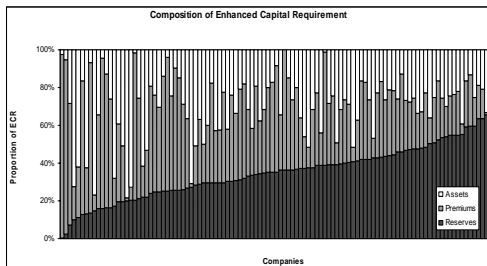
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### Where does the ECR come from?



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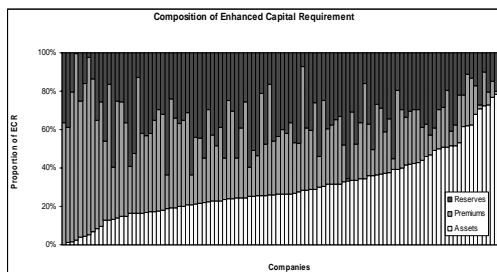
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### Where does the ECR come from?



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**Suppose you don't make it**

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- q Get some more capital
- q Reduce the ECR
  - q Premiums
  - q Reserves
  - q Assets

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**How to raise capital**

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- q Rights issue

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**How to raise capital**

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- q Rights issue
- q Qualifying borrowing

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### How to raise capital

- q Rights issue
- q Qualifying borrowing
- q Cut reserves
  - q Double whammy: capital up, ECR down
  - q Average capital loading on reserves 11.4%

### Typical company with 90% ECR cover

Reserves 100  
Assets 126.1  
Available assets 26.1

ECR	29
Made up from	
Reserves	11½
Assets	9
Premium	8½

### Typical company with 90% ECR cover

Reserves 100  
Assets 126.1  
Available assets 26.1

Perhaps we've over-egged the reserves!

ECR	29
Made up from	
Reserves	11½
Assets	9
Premium	8½

### Typical company with 90% ECR cover

Reserves	100	Reserves	97.4
Assets	126.1	Assets	126.1
Available assets	26	Available assets	28.7
ECR	29	ECR	28.7
Made up from		Made up from	
Reserves	11½	Reserves	11.1
Assets	9	Assets	9
Premium	8½	Premium	8½

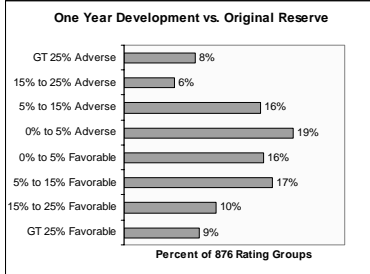
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ECR	29	ECR	28.7
Made up from		Made up from	
Reserves	11½	Reserves	11.1
Assets	9	Assets	9
Premium	8½	Premium	8½

***Don't try this at home !!***

### How Much Do Reserves Move?

Acknowledgements  
to Matthew Mosher  
of A.M. Best





#### How to Carry Out the Self Assessment?

- Stress and scenario testing is not an easy option
- Stochastic modelling may not be possible
  - As basis for compliance
  - In the medium term
- Not mutually exclusive

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#### S&S Testing: Items to include

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|--------------------|----|
| □ Credit risk:     | 12 |
| □ Market risk:     | 12 |
| □ Liquidity risk:  | 7  |
| □ Operational risk | 26 |
| □ Insurance risk:  | 23 |
| □ Total:           | 80 |

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#### S&S Testing: The conclusions

- The firm considers that capital of between £X and £Y would be required to cover risks of ...
- The firm decides that the worst realistic combination of circumstances that might arise would absorb capital of between £A and £B

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**Urgent !!!**

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q Work out the ECR

q Do you cover it?  
q If not, what next?

q Work on the S&S tests

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