



Background

Admin Re UK

- Holding company for "ReAssure" (formerly Windsor Life)
- Wholly owned subsidiary of Swiss Re (FINMA)
- Internal Model application for ReAssure (FSA)
- Swiss Re Europe also within Solvency II scope (CAA)

IMAP

- Application for ReAssure Internal Model
- Submission slot - August 2012
- ReAssure classified as "Tier 2"
- FSA workshops / RFI's ran Q1 2012 – Q3 2012
- Updates for ICA+ / submission in progress

ARUK Solvency II Issues

- IM - Demonstration of 'Use' and, in particular, 'ownership'
- Sub Group Supervision (requirement for ARUK internal model?)
- Equivalence (Swiss parent)
- College sessions, other EU entities within Group
- ...plus all the usual! (contract boundaries / matching adjustment / transition....)

Independent Support

- PWC attend internal Technical Committee
- Deloitte external independent validation

Two issues to address

Agenda

- What should be a sufficient level of detail for the calibration of individual risks to satisfy a board, for the FSA?
 - Inevitably “expert judgements” will be necessary to bridge the gaps where detailed justification is the hardest to provide.
 - What practical standards of justification are appropriate for such judgements?
- In particular, what are the practical benefits, and challenges, from the interaction between the point of view of a solo entity's use of an internal model versus a group's use of an internal model?

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Calibration of risks - Level of detail

- 100 page document or executive summary
- Use test versus reality of time and technical depth
- Cascade of understanding?
- Make it real to Board
- Links to risk management - including off model stress and scenario testing

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Calibration of risks - Expert judgement

- Firm's judgement moderated by
 - FSA's letter of the 24/7/12,
 - TASs,
 - EIOPA technical standards
- At approval whose judgement dominates – firm or FSA
 - Use test/ rationale for application
 - FSA early warning indicators and override of model parameters in model approval process

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Calibration of risks - Expert judgement

- Practical experience of
 - Applying statistical quality standards,
 - expert judgement logs,
 - data quality
- Where does judgement end and guess begin?
- Validation issues, and what does a validator bring to the mix?

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Solo versus Group strengths and hurdles -

Solo view

- Heavy duty analysis
- Road tested in differing jurisdictions
- Fresh thinking – not just UK practice standard
- But.....one size fits all?
- But....proof of challenge, semi-detached “ownership”

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Solo versus Group strengths and hurdles

Group view

- Road tested in differing jurisdictions
- Fresh thinking – not just Group practice standard
- One size fits all – market risk yes, insurance risk no?
- But....solos can be takers not contributors,
- But....demands for analysis of risks that are non material at Group level
- Resultant “ownership” between Group and Solo(s) – aggregation, etc

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Calibration of risks – Practical Experience

Convincing the Board - Level of detail

- 100 page document or executive summary?
 - Both – and then some more!
 - 'Technical' board members exposed to full detail and others given higher level summary
 - Technical members also given summary as well as detail
- Board operate better as a 'collective'
 - Exposing *different* board members to the IM in *different* ways generated *different* challenge
- Validation is key
 - Internal & External
 - P&L Attribution

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Calibration of risks – Practical Experience

Use test

- Use test versus reality of time and technical depth
 - Understanding well demonstrated by challenge and development
 - Highlighting IM *strengths* has created 'use opportunity'
 - Board are keen to understand weaknesses
 - Balance of technical detail v time dealt with by 'knowledge tiering'
- FSA interviews: great motivator for board engagement !!

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Calibration of risks – Practical Experience

Expert judgement

- Having a formalised internal EJ Policy key to clarifying:
 - What is EJ
 - What is a material EJ
 - What is the process for making EJ's
 - How are EJ's validated
- Materiality of EJ defined in two ways:
 - Balance sheet impact
 - Confidence in judgement
- Material EJ's require more rigour in:
 - Reporting
 - Justification / Ownership
 - Validation
- Validation focuses more on the EJ justification & process than value

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Calibration of risks – Practical Experience

Convincing the FSA (?) - Level of detail

- Detail as for Technical Board members
- Validation & review layers leading to FSA review tease out challenge
- Continuous support from Group
- FSA heavy focus on:
 - Expert Judgements
 - Board understanding / Use
 - Key risks
- Initial documentation review more thorough than expected, but led to better quality documentation submitted in August.
- Documenting and justifying all assumptions (esp immateriality) a regular theme.

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Solo versus Group – Practical Experience

Group v Solo Calibration

- Aim is to have a *single view of risk* across group. However.....
- ReAssure Board must *demonstrate ownership* of the ReAssure Internal Model
- Potential for conflict? Perhaps, but...
 - Risks idiosyncratic to Solo are better understood by Solo
 - Group invest significant resource into material risks
 - All calibration proposals must be supported by robust justification and statistical evidence
 - Solvency II aligns requirements – Fresh thinking

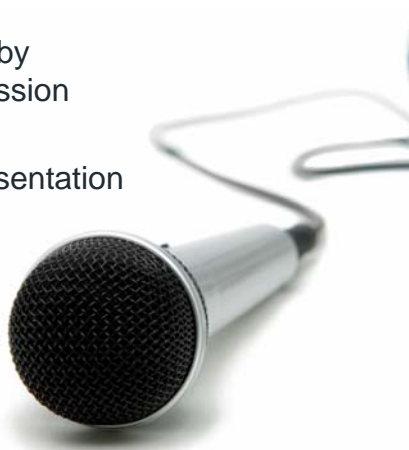
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Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

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