

Current Issues in Life Assurance
John Jenkins

Just how do you manage your capital
over the next 4 years given the
complete lack of certainty on
Solvency II and IFRS Phase II ?

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Uncertainty is our stock in trade.....

“ There are known knowns; these are things we know we know.
We also know there are known unknowns; that is to say we know there are some
things we do not know.
But there are also unknown unknowns – the ones we don't know we don't know. ”
Donald Rumsfeld, Former United States Secretary of Defense

Profession's website: 1748 items on searching for “uncertainty”

Google: 385,000 hits for “actuaries & uncertainty”

BUT

This is different!!

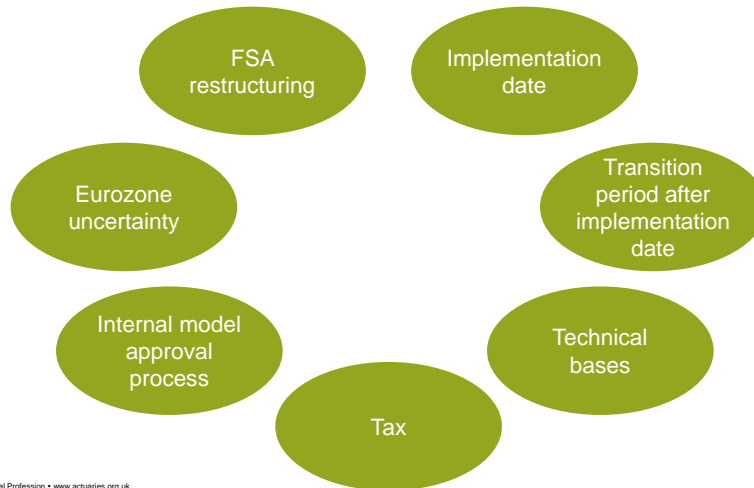
Google: “Solvency II delays” : 114,000 hits

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Multiple dimensions of uncertainty.....

How do you deal with all of this?



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Areas of uncertainty in Solvency II – Pillar 1 (1/2)

Area	Impact on Realistic/Economic Base Case	
	UK Industry	My Company
Discount rates/liquidity premium		?
Contract boundaries/future premiums		?
Groups and equivalence		?

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Areas of uncertainty in Solvency II – Pillar 1 (2/2)

Area	Impact
Implementation date	
Transitional arrangements	
Euro uncertainty	

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Areas of uncertainty in Solvency II – Pillar 2 & 3

Area	Impact
Internal model approval process	
Extent of external audit of balance sheet	
Will AFH and WPA still exist?	
Disclosure – what and when?	

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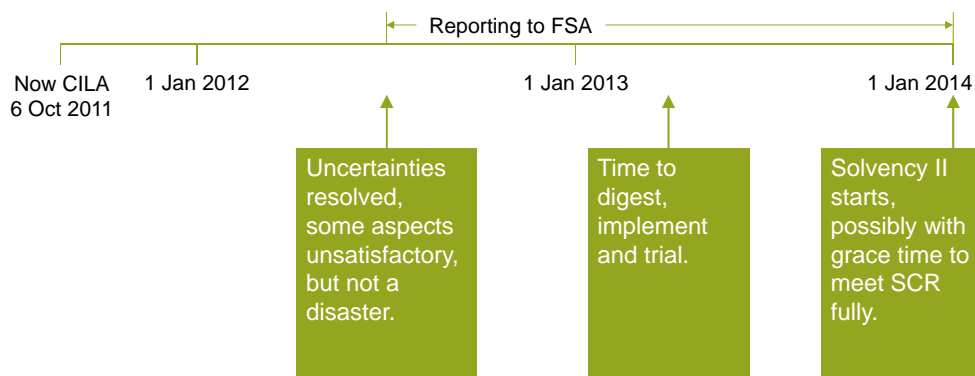
Path 1



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Path 2a



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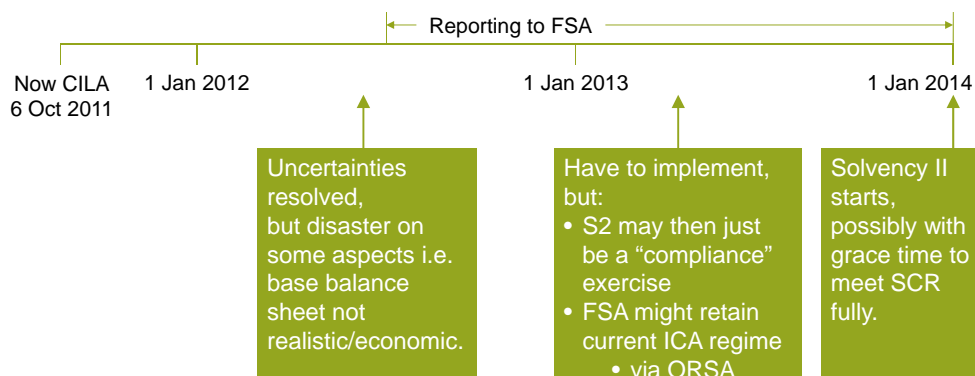
Path 2b



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Path 3a

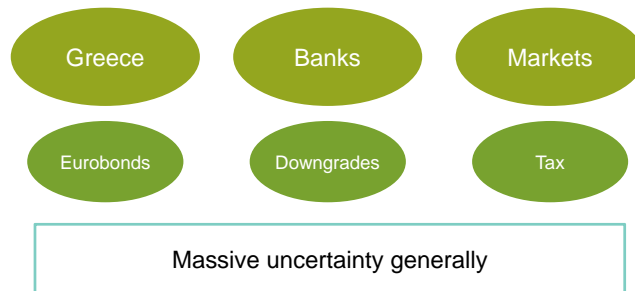


Path 3b – Same as Path 3a with uncertainties not resolved until 2013 (or late 2012) hence causing more pain. Transition to meet SCR hopefully longer.

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Path X – Eurozone uncertainty delays Solvency II



Concern around bank solvency / liquidity

Must be a risk that EU will not want concerns with insurance company solvency at this time – keeping the banks solvent will be arduous enough

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Implications if Solvency II outcome “unfavourable”

Unfavourable →

- Base balance not economic / realistic
 - too prudent
 - wrong structure (e.g. no future premiums allowed)

Implications →

- Economic capital and regulatory capital disconnected
- Difficult to follow “use test” properly
- MCEV much more likely to continue as an alternative
- FSA could retain ICA regime alongside Solvency II?

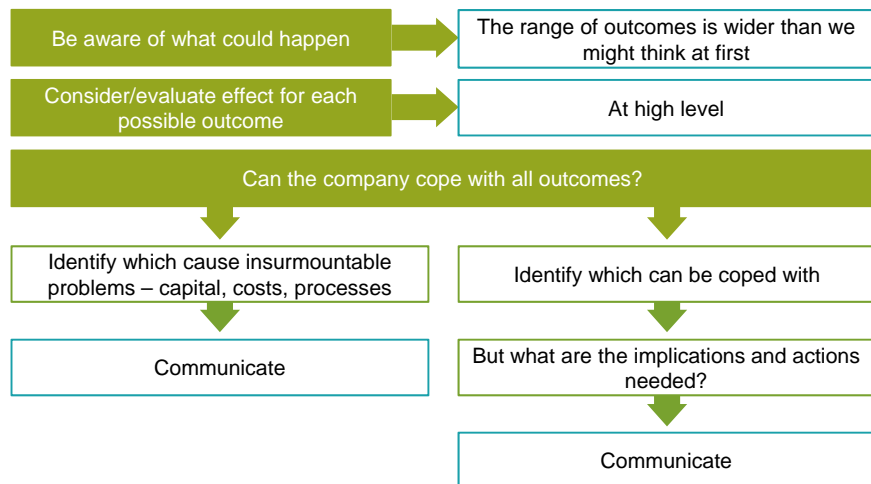
→

- Could mean maintaining/running additional systems.
- Coping with twin approaches as currently: Pillar 1 / Pillar 2, Peak 1 / Peak 2

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One approach



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What level of planning should be done?

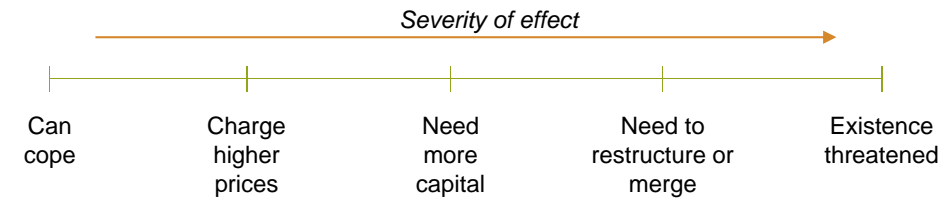
Clearly expensive and time-consuming to plan in detail for all eventualities

	Outcome	Level of plan needed
Path 1	all goes to plan from here	Detailed + flexible
Path 2	some glitches - timing OK	Detailed
Path 2b	some glitches - timing awful	Detailed
Path 3a	serious issues - timing OK	Detailed or High Level?
Path 3b	serious issues - timing awful	High Level?
Other markets scenarios		??
Company specific scenarios		??

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Level of threat posed by various outcomes



- Consider where on this scale your office would be for the various outcomes
- Other actions which might help:
 - Reduce number of legal entities / restructure
 - Reassure externally or dispose of problem blocks/subsidiaries
 - Reassure internally to maximise diversification

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Contingency planning – the obvious trade off

- costly
- disruptive
- time/money wasted with hindsight



- more certainty
- competitive advantage
- less stressful

Can we build in some contingency options/solutions as we go along our main path?

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Effect of uncertainty on strategic decision making

Strategic decisions	More delay?
<ul style="list-style-type: none"> Which decisions must be deferred? Which can/should go ahead in spite of the uncertainty? 	Bad if your project is going well and delay means ongoing further spend and multiple bases
	Good if you're behind!!!

Companies should have a working assumption and plan on this basis.

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IFRS Phase II – current status

- IASB previously working towards fixed standard by June 2011
- IASB currently planning to re-expose or make a review draft during 2012
- Effective date: unknown
 - unlikely to be before 1 Jan 2015
- FASB is still a complicating factor
- Any further delay to Solvency II could see IFRS II and Solvency II coinciding

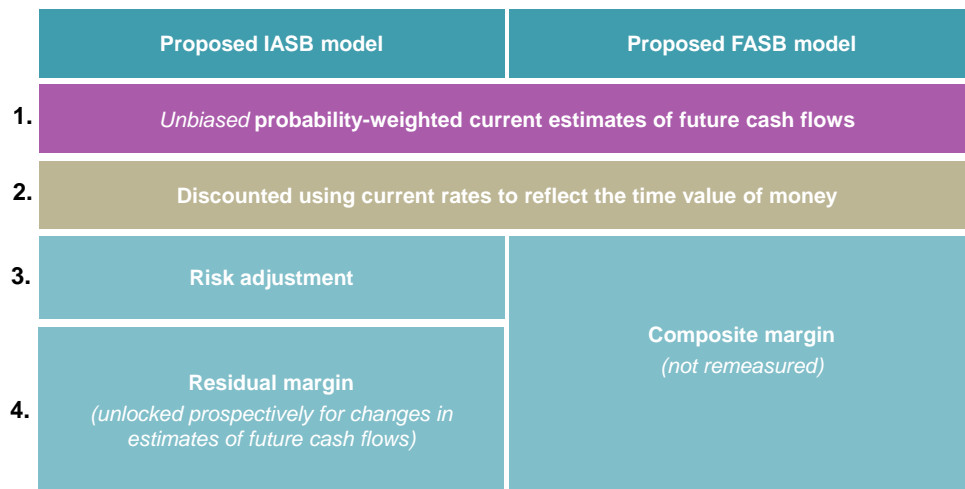
IFRS Phase II is an uncertainty, but not as bad as Solvency II

- structure and building blocks more defined
- principles based
- several ambers but no reds?

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The four IASB building blocks



IFRS Phase II – things we do know and can do

- Actuarial systems will need to do cohorts
- New business profit profiles can be worked out pretty well
- Some high level method will be needed for older existing business
- How do you want your 90/10 with-profits to work under IFRS II?



Quite a lot which can be progressed now!

Conclusions and suggestions

- Extraordinary level of uncertainty right now
- The range of possible outcomes is still wide
 - wider than at first appears
- Plan/communicate for all outcomes – at least in outline terms
- Decide which other outcomes, if any, to do detailed plans for
- Identify areas where you're different from others in the industry
 - and ensure that you can cope with an adverse outcome in these areas
- Don't forget IFRS – there are aspects you can get on with now