

Myths about Solvency II



Objective of this session

Focus on some of the common myths within

- 'Pillar V'
- SCR Standard Formula
- Technical provisions
- Internal model
- Others

"Can we have a meeting about Solvency II?"

Myths about Solvency II – Pillar V

- SII is an actuarial job
- The SCR is the be all and end all of SII
- *"If the standard formula ends up with a nice low number then there is no point in going internal model"*
- Only an actuary can build an internal model, so only an actuary can be a CRO

Myths about Solvency II – Pillar V

- The ORSA doesn't have to be written down
- If you have an (approved) internal model, you don't need an ORSA
- The ORSA is a report
- The ORSA is a third number
- If you have an internal model you've done the ORSA
- *"Small firms will find SII much harder than big groups"*

Myths about Solvency II – Group SCR

- If you have third country business and the regime is equivalent, you can just add in those numbers to get the group SCR.

Myths about Solvency II – SCR Standard Formula

- The standard formula will be as per QIS4
- The SCR is the standard formula
- It is OK to have an SCR that doesn't fit the risk profile, as there will be an ORSA
- The FSA will use the standard formula as a baseline for assessing internal models

Myths about Solvency II – Internal model

- Data must be perfect in order to model
- CP56 has a “sinister supervisory motive” behind it
- Each calibration is an internal model
- The main aim of the internal model is to calculate the SCR
- *“We don’t need to worry about modelling – group will do it for us”*

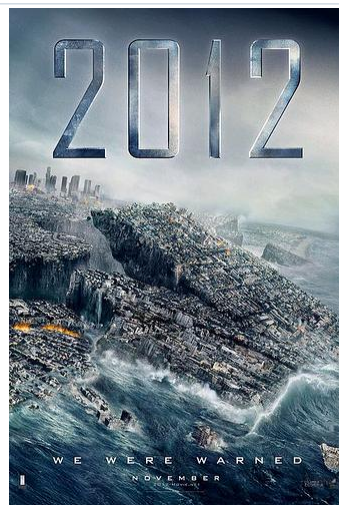
Myths about Solvency II – Internal model

- You must do Monte Carlo simulations, and at least 100,000 of them
- *“You have to have a full probability distribution forecast. It says so in the Directive.”*
- Board members will have to understand everything about the internal model
- No need to worry about the standard formula – I’ll be in the pre-approval process!

Myths about Solvency II – Others

- *Solvency 2 doesn't affect pricing, it's just about capital*
- *"Only the UK is actually going to bother implementing SII properly"*
- *"The FSA is going to recommend how to do things, so we should wait for that."*

Myths about Solvency II – 2012 is the end of the world anyway....



Myths about Solvency II – Any more?

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Contact details

Kathryn Morgan

FSA

kathryn.morgan@fsa.org.uk

Tamsin Abbey

Deloitte

tabbey@deloitte.co.uk

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