The Actuarial Profession
making financial sense of the future

GIRO conference and exhibition 2010

Paul Martin, Catlin
Vishal Desai, FSA



Pre-application:

Reflections from the practitioner and the reviewer

15 October 2010

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Catlin Enterprise Risk Management

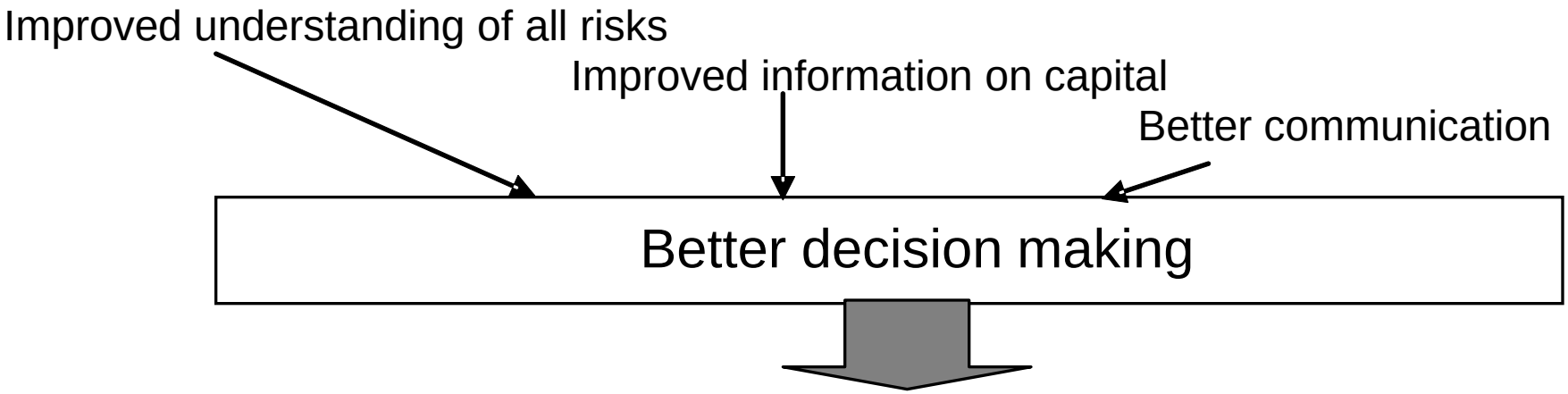
ERM Vision

"*To establish a holistic embedded Group-wide Risk and Capital Management Framework that enables informed risk based strategic and operational decision making to* ***optimise the risk / reward relationship***"

This will be based on transparent communication of risk management and risk appetite and utilising an economic capital approach

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Benefits



Improved market perception

- Better market understanding of Catlin's business model
  - Rating agencies
  - Analysts
  - Shareholders
  - Policyholders

Enhanced profitability

- Optimisation of portfolio
- Managing within risk appetite
- Consistent approach and evaluation of risk
- Improved awareness of risk throughout the business

Regulator is satisfied:

- BMA
- FSA
- FINMA
- Lloyd's
- US

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Internal Model Approval Pilot

- Decision to apply for Internal Model Approval
  - Well established Risk Management Framework
  - Capital model embedded within the business
  - Take control of own destiny
  - Uncertainty in standard formula
- Invitation to participate in Pilot
  - Good open relationship with Regulator

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Internal Model Approval Pilot

- Benefits of Pilot
  - Improved understanding and management of expectations for all parties
  - Generated momentum for Group ERM program
  - Significant executive engagement
  - Guide the structure of pre-application
  - Early identification of gaps

- Challenged our thought processes

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Pre-Application
Firm Perspective

- Pre-Application Qualifying Criteria (PAQC)
  - Detailed implementation plans
  - Continuation of pilot process
  - Functional interdependencies critical
- Pre-application format and feedback
  - Face to face
  - Summary discussions to detailed review work
  - Clear identification of our shortfalls and time to respond
- Continue to challenge our thinking

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Pre-Application
Firm Perspective

- Difficulties
  - Balance between planning and actual production
  - Working with shifting goal posts
  - Chance of falling off pre-application path
  - Benefits clearly out way the difficulties in application
- Concerns largely remain global
  - What will equivalency mean in practice?
  - Group regulator beyond EEA
  - Consistency between regulators
  - Consistency of FSA team
  - EEA not competitive?

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Pre-Application Reflections

- Open and honest
  - FSA listen and react to concerns
  - Raise any issues early and allow time to respond
- Respond to feedback
  - Planning: resource and executive buy-in
  - Don’t forget the detail
  - Focus evidence on ‘why’ rather than ‘what’
- Business led not a compliance exercise

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Summary

Beneficial to our business

……but its not an easy ride

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Model approval in 5 numbers

440

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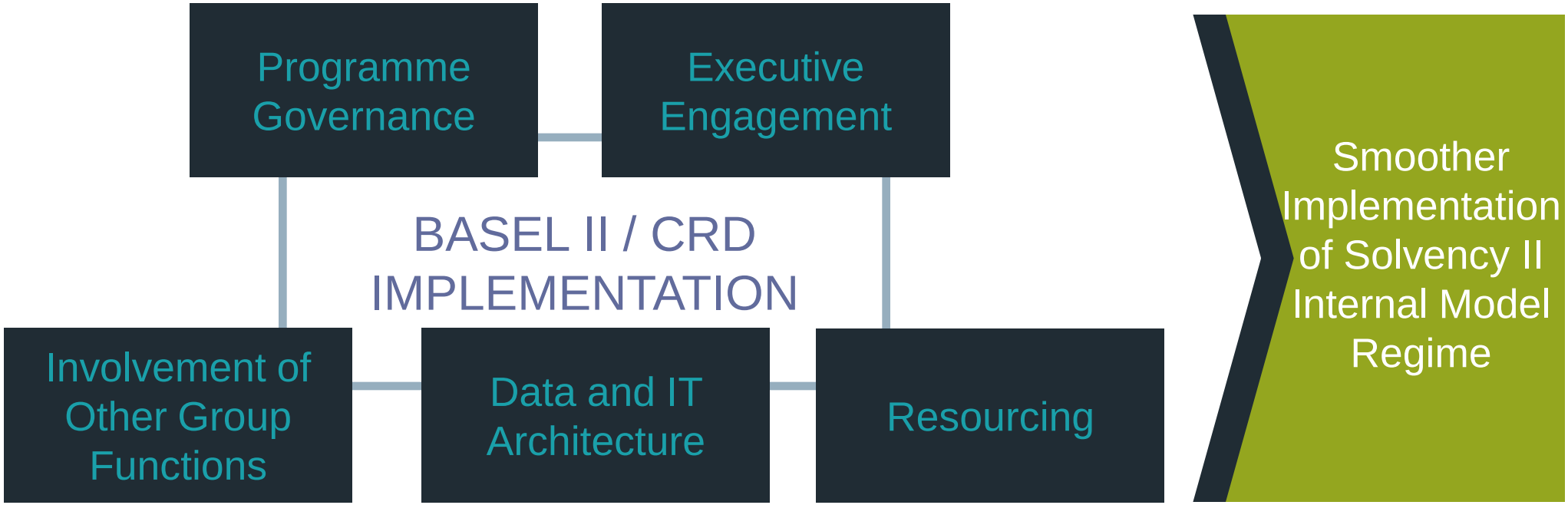
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Lessons to learn from Basel II

The regime was different, the sector was different…



… but some of the lessons are already applicable

Some of the benefits we are already seeing…

Pre-application proving a positive and informative experience…

- PAQC effective at identifying well prepared firms
- Promoting efficient direction of limited resource
- Working with other supervisory authorities laying way for group supervision
- Providing early sight of potential areas of concern and where to focus review
- Allowing us to compare and contrast firms, informing view of acceptability

… not just for our firms but also for us as the regulator

This is what a good firm looks like…



Sound planning has already been completed…

- Has robust, credible Solvency II implementation plan
- Has adequate budget and fully mobilised resource
- Can clearly link project plan activity to Directive and Level 2 requirements
- Has engaged whole business in development of internal model
- Has considered implications of Solvency II on group structure

This is what a good firm looks like…



… and implementation is well under way

- Engaged in dialogue with all relevant regulatory authorities; pre-application underway
- Developed a strong governance and risk management framework
- Defined its internal model scope and underway with capital model build
- Good progress with wider aspects – ORSA, technical provisions, reporting
- QIS 5 almost completed
- Detailed documentation vision with significant material already drafted

Don’t let your house get blown down!



- It’s no good having a great capital model if the framework around it is weak
- Implementation should prioritise:
  - Risk management system and use
  - Governance
  - Data management

Documentation



- Think about the purpose – how will it be used and by whom?
- Put yourself in reviewer's shoes, particularly when it comes to application document
- Place twice as much focus on the why than the what … we will!

IMAP is not a tick-box, compliance exercise!

For us as regulator IMAP is less about compliance with Directive…

- Ultimately, we want to gain comfort that
  - Firms really understand the risks they face
  - Firms can demonstrate how they manage risks effectively and appropriately
  - Consumers are adequately protected

- Solvency II and internal model regime is about bridging risk and capital – pre-application is your chance to show-case how you have embraced this

… and more about us making decisions that support the FSA's statutory objectives

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Model approval in 5 numbers

The key to successful pre-application is to …

+44 (0) 20 7066 1000

International direct dial to FSA switchboard

… to engage openly and pro-actively with your regulator