

GIRO conference and exhibition 2010

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Pre-application:

***Reflections from the practitioner and
the reviewer***

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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

Benefits

Improved understanding of all risks

Improved information on capital

Better communication



Better decision making

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

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

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

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

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?

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

Summary

Beneficial to our business

.....but its not an easy ride

Model approval in 5 numbers

440

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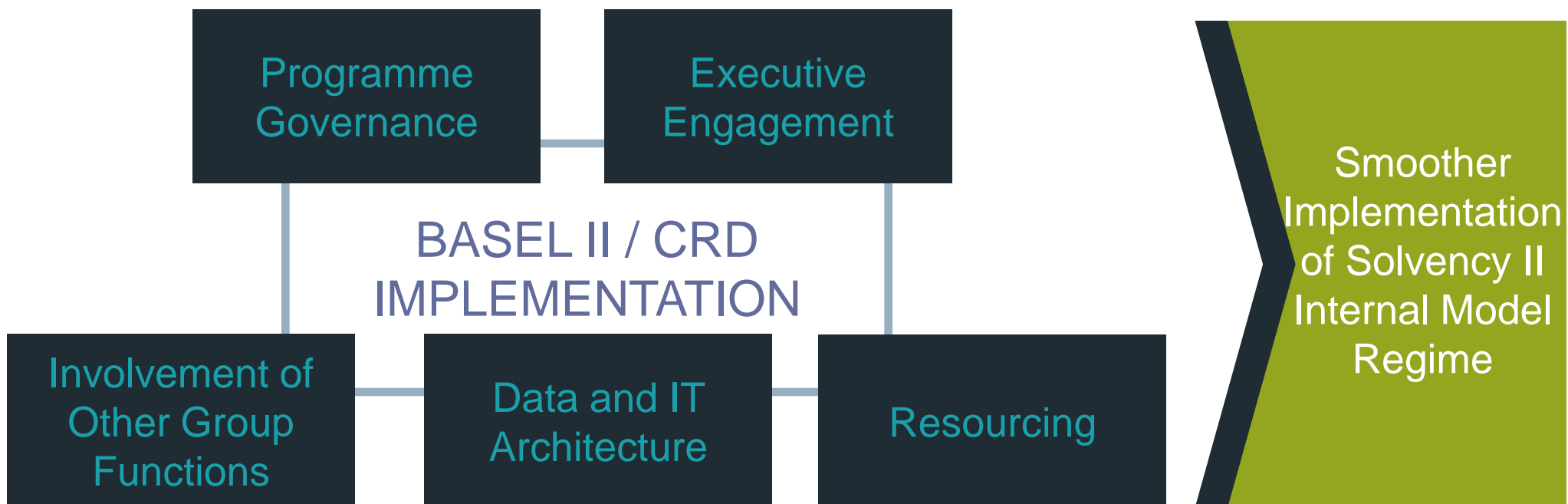
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Lessons to learn from Basel II

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 ...

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International direct dial to FSA switchboard

... to engage openly and pro-actively with your regulator