

The Actuarial Profession

making financial sense of the future

GIRO - 2011
James Orr

Solvency II – Technical Provisions

Solvency II Technical Provisions - Overview

- A Reporting Revolution?
- Market Consistency
- Communication Challenge
- Key Messages
- Life After “Day 1”

A Reporting Revolution?

- History of Opacity
 - GI business model
 - pooling, transferring, retaining and mitigating risk
 - liquidity advantage and the “float”
 - pricing based on incomplete knowledge of the true cost
 - liability valuation
 - complex products, risk drivers and claims processes
 - high levels of subjectivity and use of implicit margins
 - potential for cost emergence to be managed or distorted over time
- Implications
 - challenges for senior management
 - coping without an objective measure of cost and risk
 - challenges and concerns for investors
 - value-creation or just a source of volatility?

Market Consistency

- Technical Provisions (TP)
 - central to Solvency II Balance Sheet
 - a single “Best Estimate” figure for TPs
 - removal of prudent margins
 - economic value of future cash flows
 - time value of money
 - inclusion of a (modest?) risk margin
- A new dynamic
 - greater volatility in TPs
 - isn't this more reflective of the truth?
 - movements attributable to known drivers
 - regular reporting and explanation of movements

Communication Challenge

- Essential to communicate risk to Board
 - chance for GI actuaries to step out from back room
- Also, with markets and regulators
 - explaining movements in market consistent valuations
 - greater transparency leading to more realistic risk view
- Emphasis on controls & governance
 - faster closing, better and smoother processes
 - migration of tools from actuarial to IT departments?
- Narrative reporting
 - think about what this involves and how it should look

Key Messages

- Much has been done, which must be acknowledged
 - Solvency II GIROC sub-group
- A chance to de-mystify the numbers
 - links to investment markets
 - links to identifiable claims events and developments
- Higher governance standards
 - greater need for challenge
 - actuaries must engage with NEDs

Life After “Day 1”

- Immense efforts and achievements
- Great boost to actuaries
 - in a challenged economic environment
 - huge engagement in a major project
 - the emergence of a new regulatory regime
 - central to fundamental changes to how insurers operate
- Visible effects
 - strong demand for actuarial resource
 - reduced pool of volunteers supporting Profession
- Come 2014 or 2015...
 - will there be more volunteers?
 - what should we be looking to achieve?
 - particularly if economic conditions remain a challenge?