

Insurance

The Post Solvency II World

What will your risk, finance and actuarial functions look like?

GIRO: 25th September 2008



*connectedthinking

PRICEWATERHOUSECOOPERS 

Agenda

Reporting

Processes

Roles and responsibilities

Costs

Benefits/Opportunities

Market insights

Questions

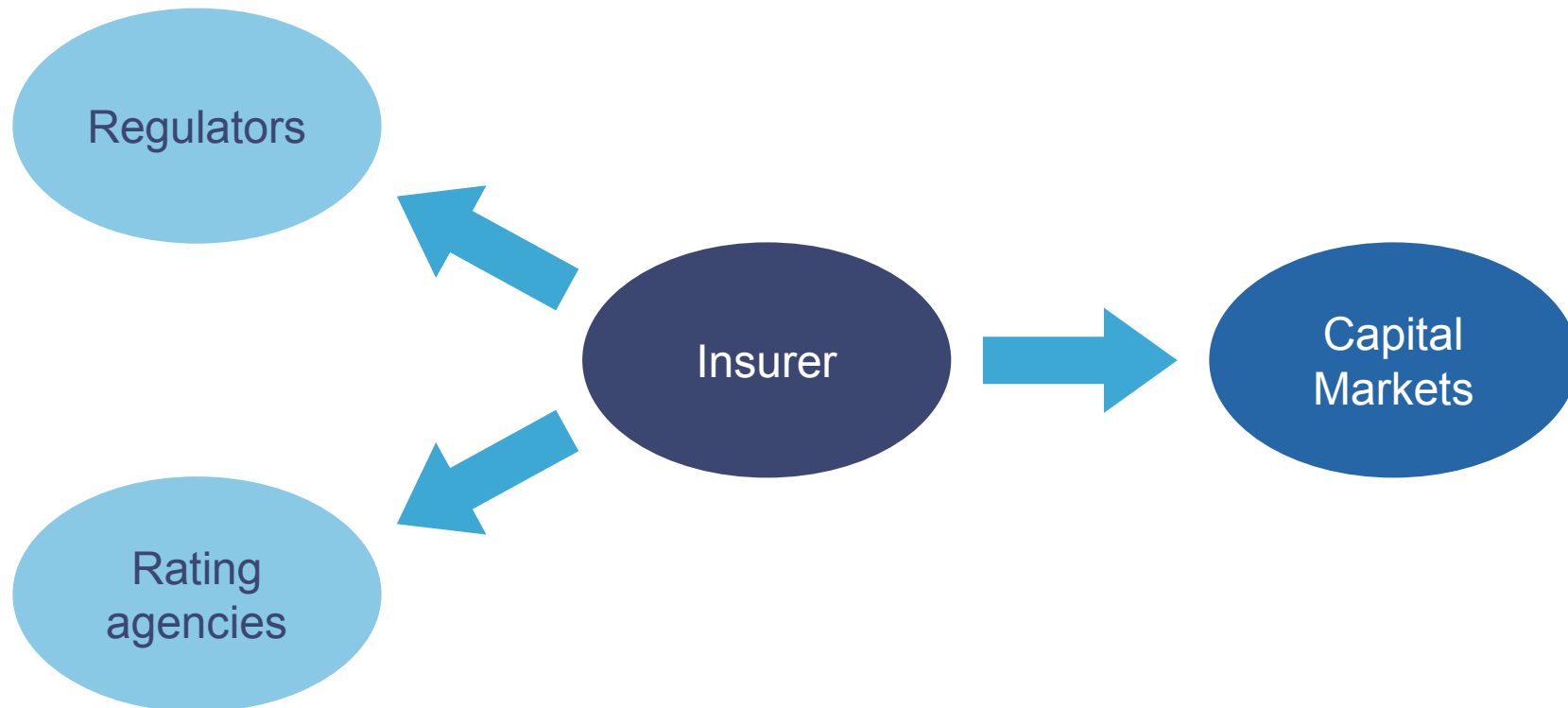
Reporting

How will your reported numbers have changed?

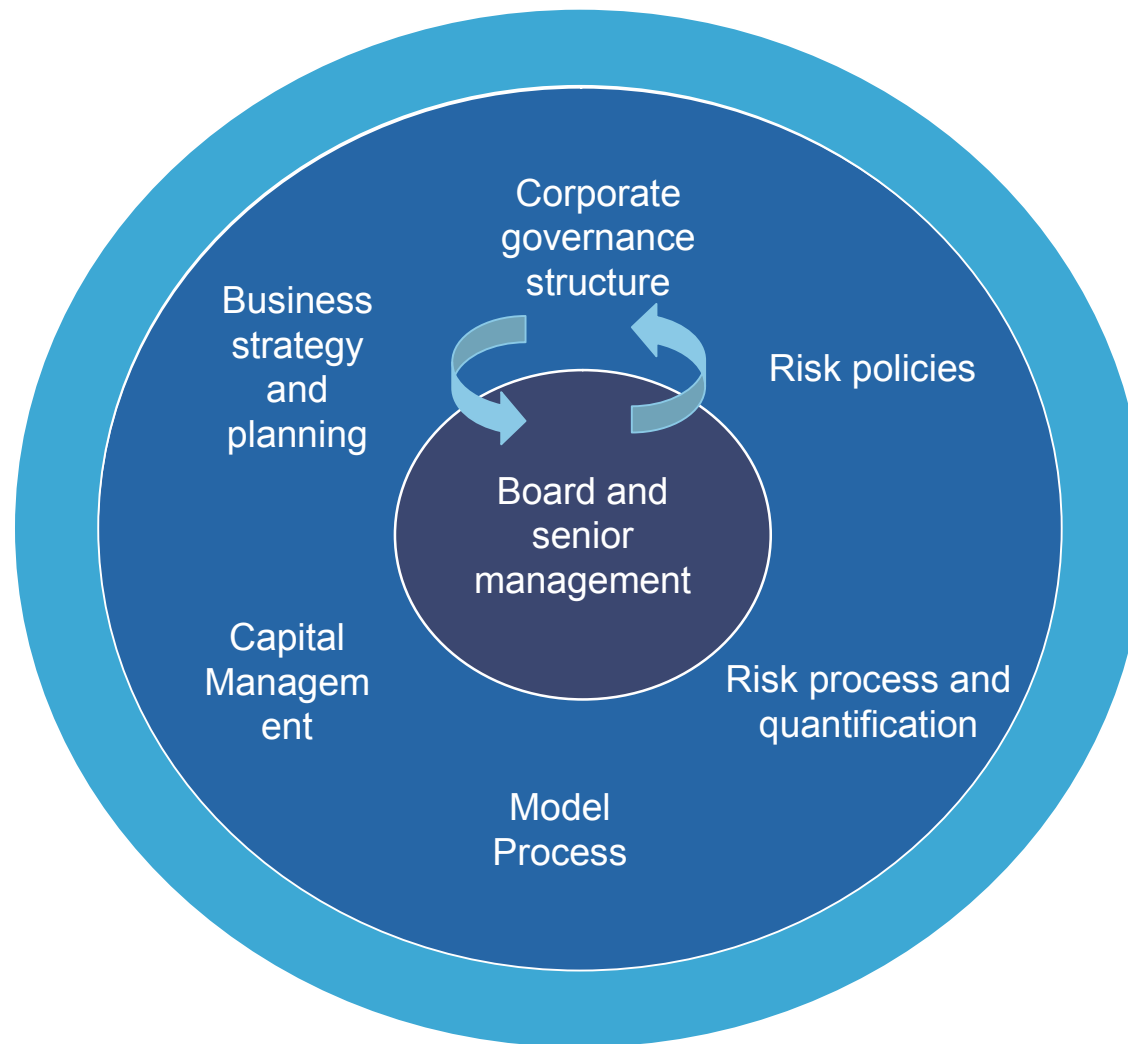
Now	Post Solvency II
Statutory reporting: <ul style="list-style-type: none">• Annual accounts	Statutory reporting: <ul style="list-style-type: none">• Annual accounts
Financial reporting: <ul style="list-style-type: none">• IFRS• UK GAAP/Other local GAAP	Financial reporting: <ul style="list-style-type: none">• IFRS Phase II (TBC)
Regulatory Reporting: Solvency: <ul style="list-style-type: none">• UK – ICA (PRIVATE)• EU – Solvency I (PUBLIC)• EU Groups – Capital Adequacy Regime	Regulatory Reporting: Solvency: <ul style="list-style-type: none">• Annual solvency & financial condition report (PUBLIC):<ul style="list-style-type: none">• Business overview and performance• Governance• Valuation• Risk management• Capital management• Calculations of SCR• ORSA (PRIVATE)
Reporting to rating agencies (PRIVATE)	Reporting to Rating Agencies (PRIVATE)

Reporting

Stakeholder tension



Integration with core business processes

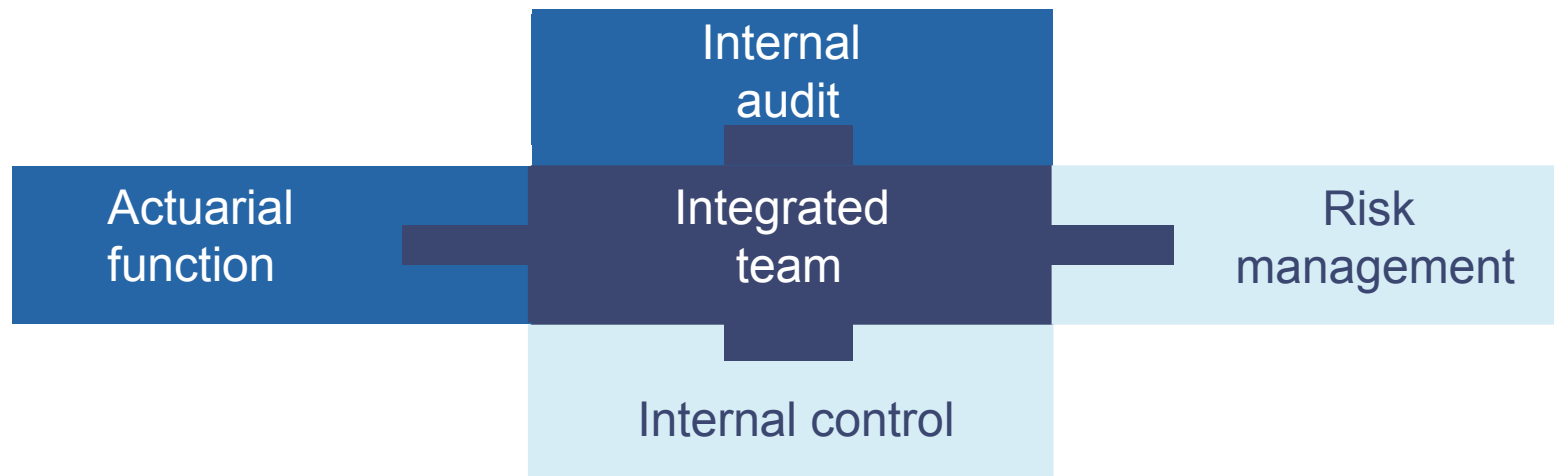


How your organisational structure will have changed

System of governance

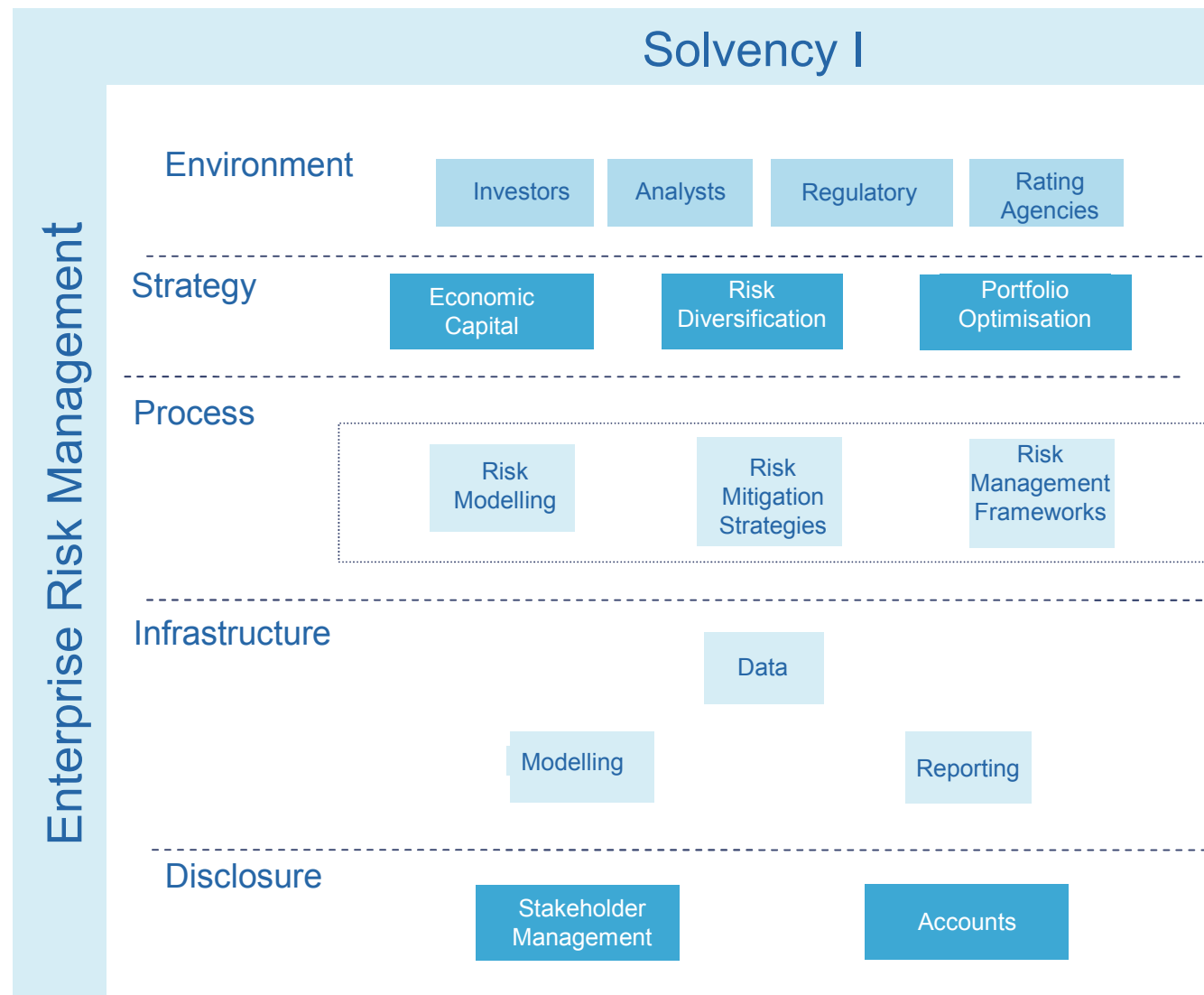
Well defined, transparent and consistent lines of responsibilities, appropriate segregation of duties

Responsibility is on the company to define functions appropriate to current structure and requirements

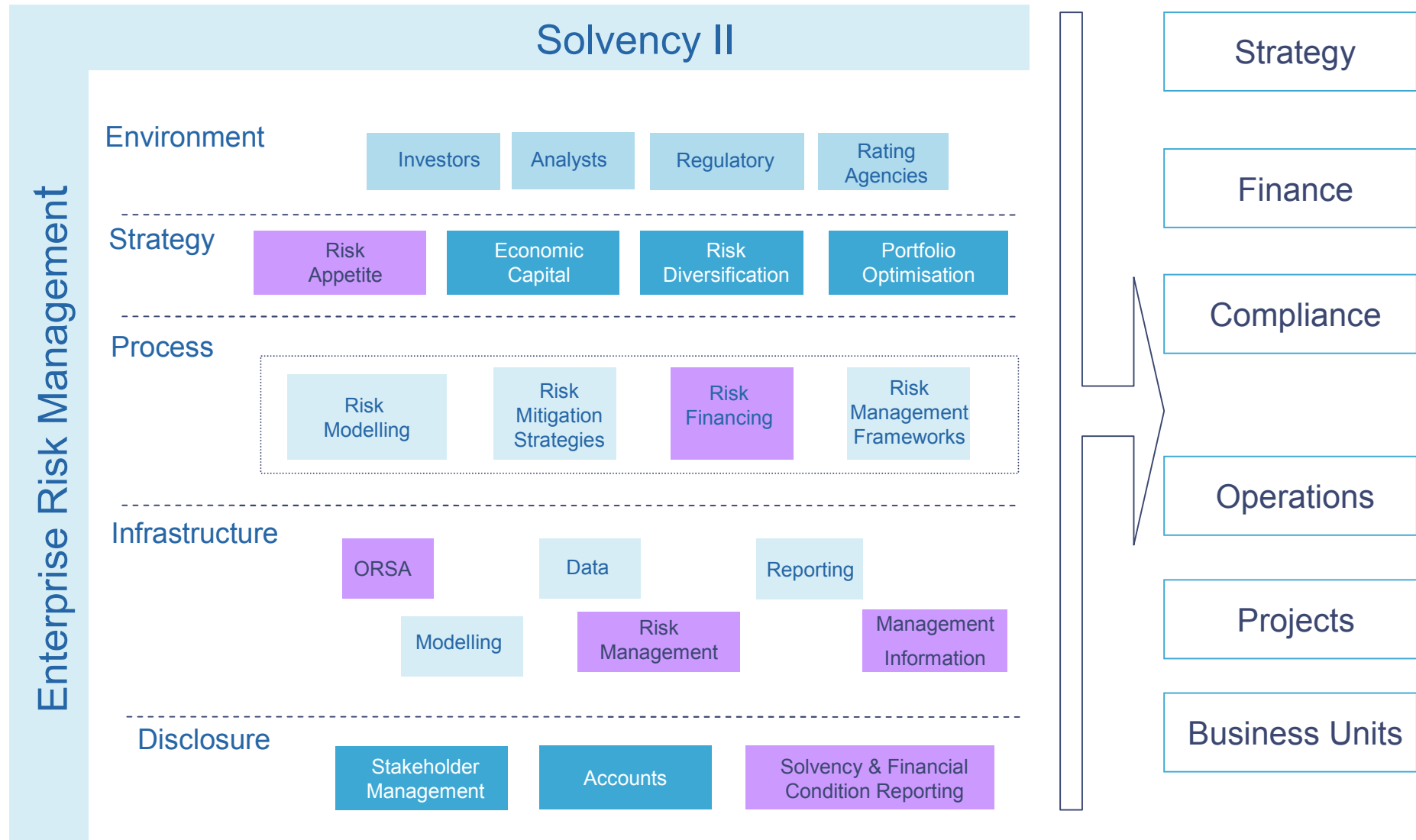


Own risk and solvency assessment (ORSA)

Good practice in risk management - Now



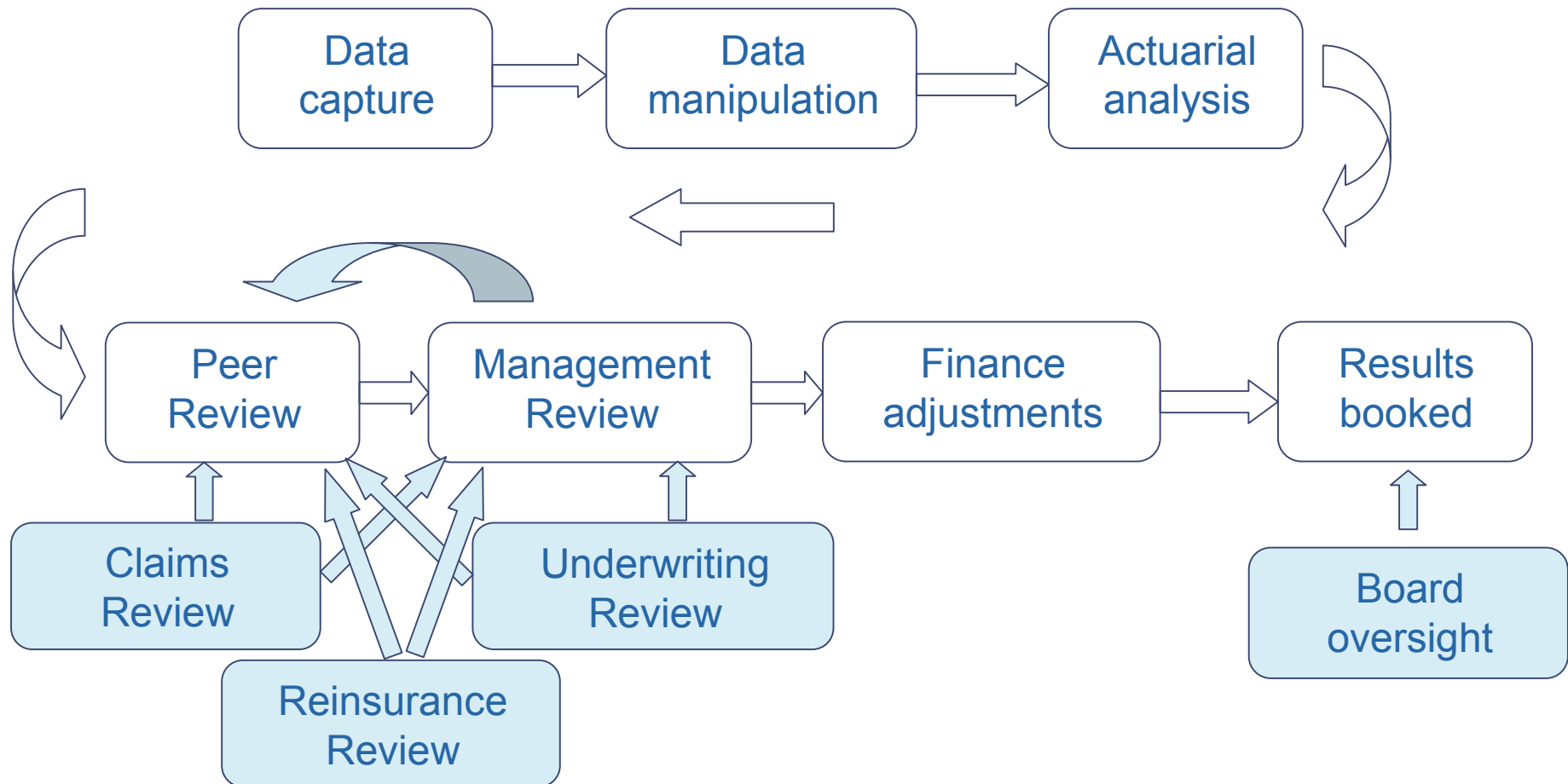
Good practice in risk management – by 2012



Processes

How will the actuarial processes change within your company?

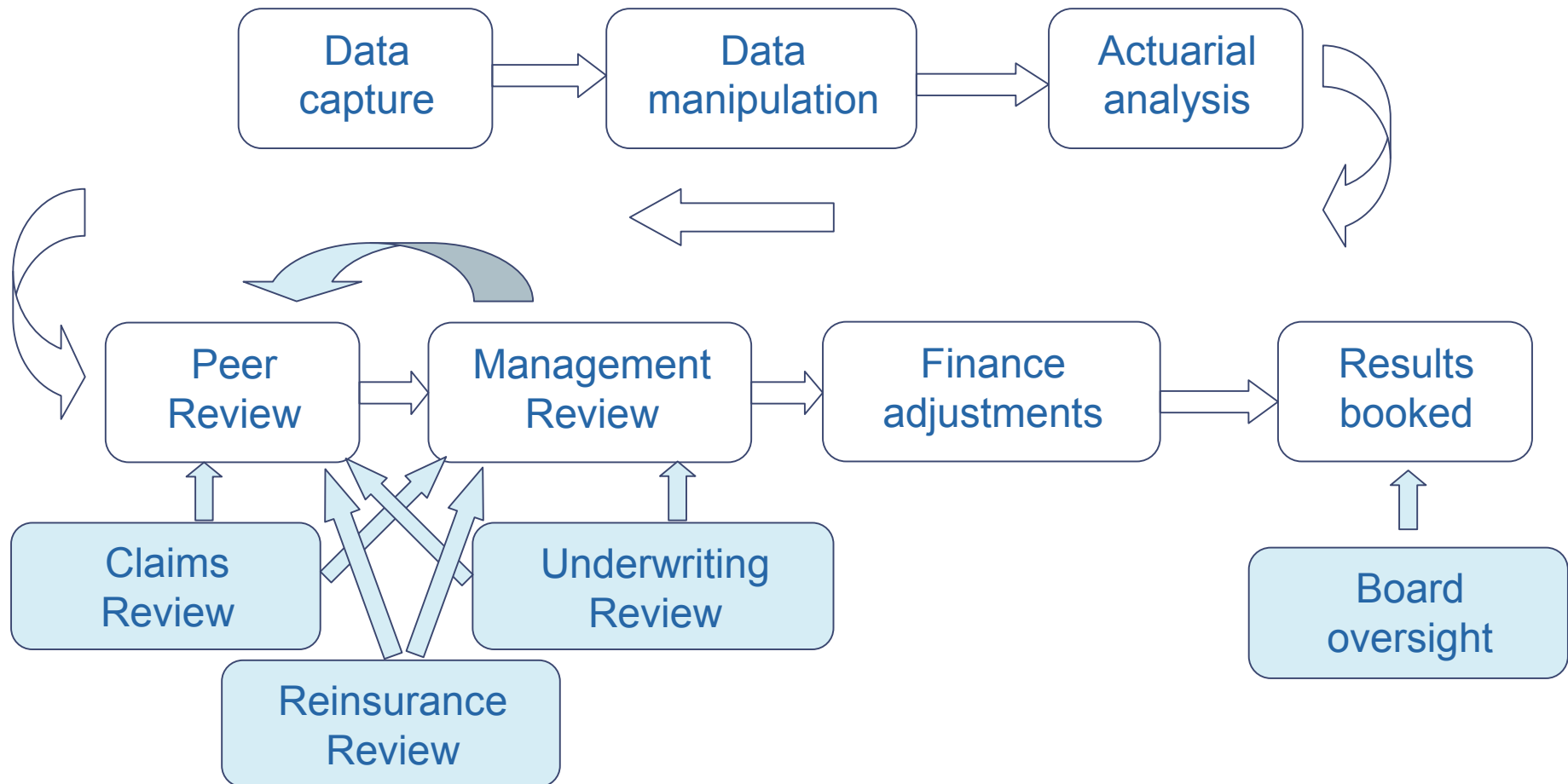
Your reserving process now



Processes

How will the actuarial processes change within your company?

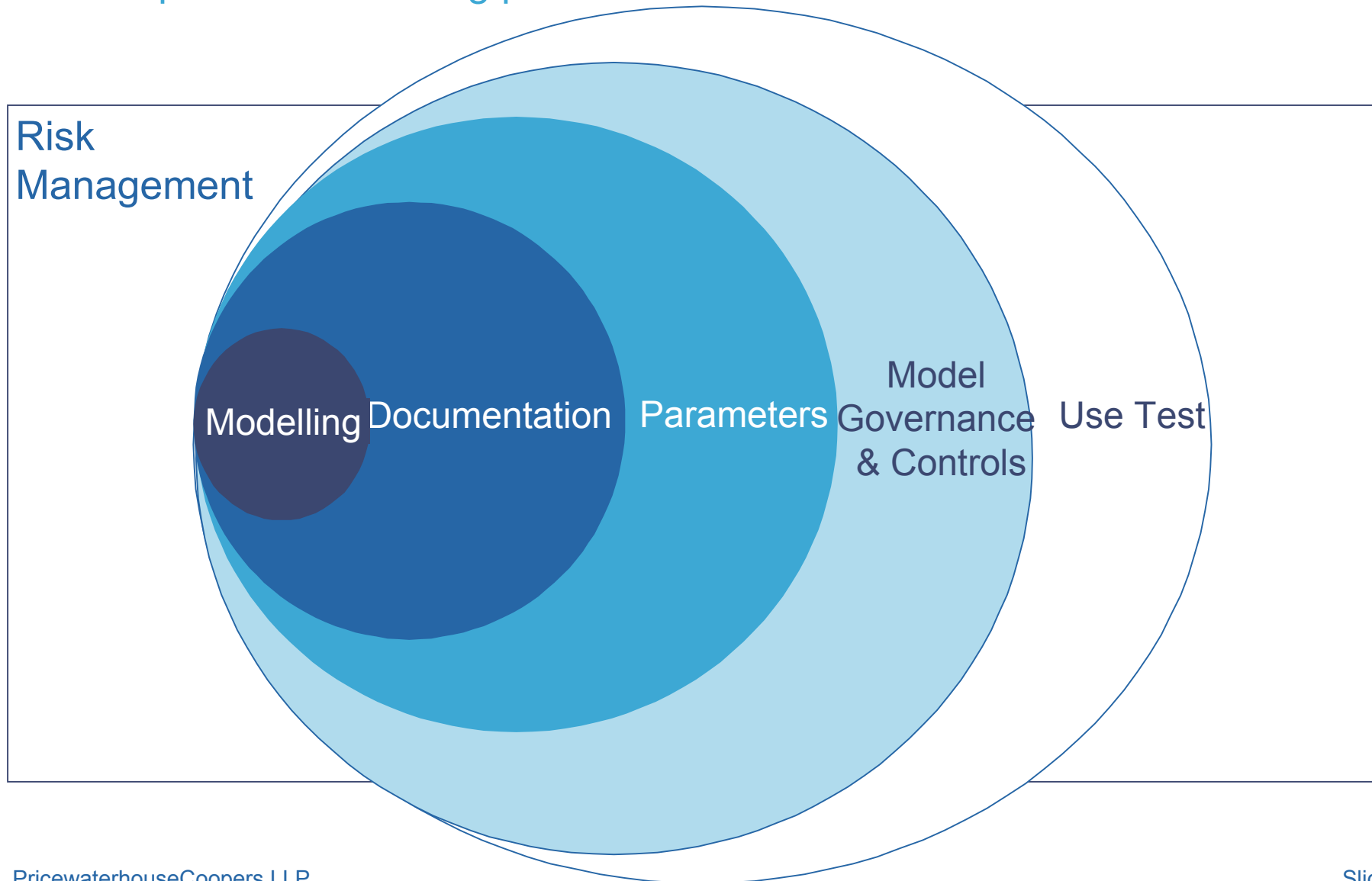
Your capital and reserving process in future



Processes

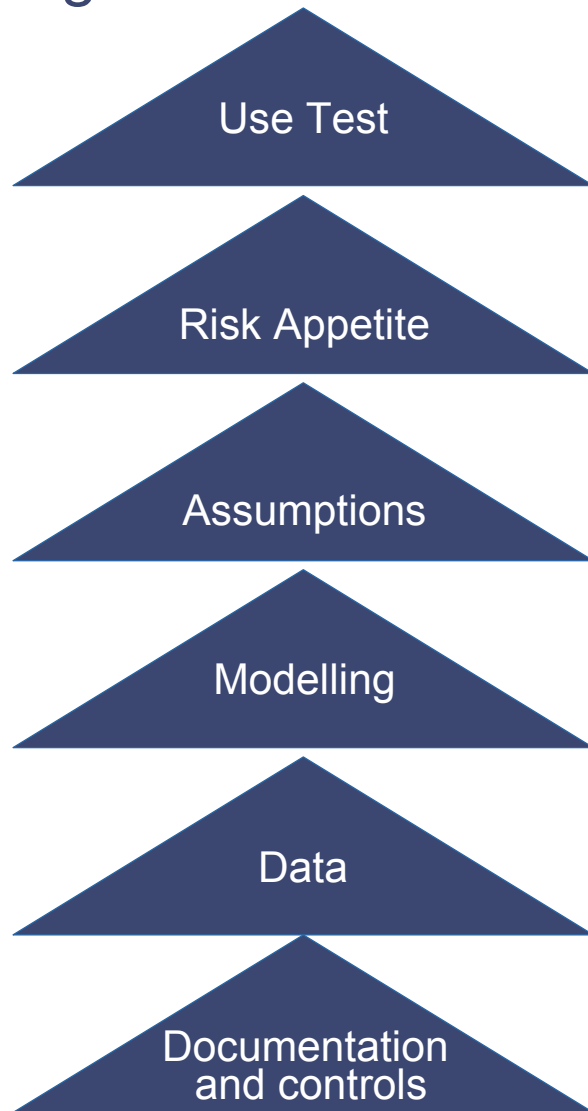
How will the actuarial processes change within your company?

Your capital and reserving process in future



Roles and Responsibilities

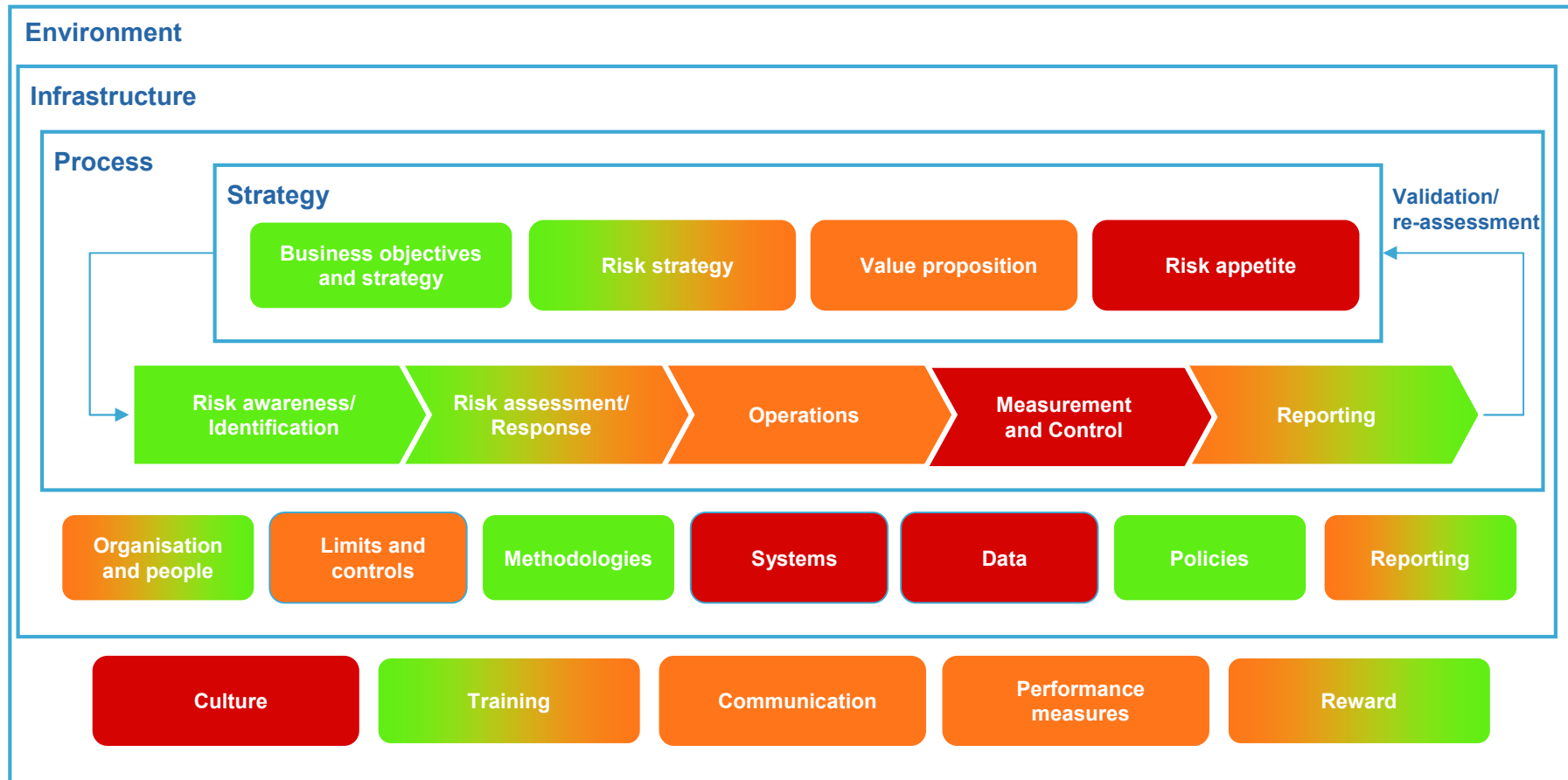
How will the roles of the finance, risk and actuarial functions change?



- Management Role
- On the ground

Processes

Risk Management – how good are insurers?



Red = currently weak, green = currently strong

How will the actuarial processes change within your company?

- Organisational and resource impact?
- Will accountants/ underwriters/ management need to become risk & capital literate?
- Will finance/actuarial teams need to integrate?
- Are firms recruiting, training?

Costs

What will be the costs associated with Solvency II and can these be balanced by benefits?

Ongoing Additional Costs	Potential benefits
Staff – development, retention, management	Competitive advantages as resources become increasingly scarce
ORSA – embedding and implementing	Great transparency and a more informed basis for decision making
Greater investment in data systems/teams	More consistent and reliable data
Model approval vs. SCR	Potential capital benefits of internal model calculation
Public disclosure – timeliness and quality of output	Increased investor/consumer confidence

‘Additional non-capital cost of Solvency II implementation for all UK firms,, is approximately £61m as a one-off cost, and an additional £5m on an ongoing basis each year.’ FSA, QIS3 for Solvency II

Solvency II – commercial advantages

- Risk vs. Reward
 - Better control/link between risk and capital management
 - Ability to consider impact in strategic decisions
 - Enhanced profitability of products through alignment with risk appetite
- Transparency – demonstrate improvement in efficiency to the market
 - Increased investor and customer confidence
 - Potential lower cost of capital
- Opportunity to upgrade systems and processes
 - Synergies with IFRS?
- Driver for group and operational restructuring (outsourcing?)
- Catalyst for potential consolidation
- Benefit from closer relationship with supervisors

What are companies doing now?

Bancassurers / EU Groups

- Early movers

P&C / London Market

- Previously lagging
- Now engaging

Activities

General education and awareness training		Board briefings, training programmes, lobbying		Project Set Up	
Gap/ Readiness Assessment		Strategic vision clarified	Group Restructuring	Model – Embedding and Control Framework	
Examining risk appetite		QIS 4	Data warehouse, model specification & build		Lobbying (including groups/proportionality)

European restructuring – What is happening in the market?

Swiss Re

Creation of two Luxembourg-based risk carriers and branch network across Europe

MBIA

Simplification – now a UK company with a French branch

ZFS

Creation of Pan European Ireland based U/W
Branches/ Services basis across Europe

XL

Transfer of UK branch to Ireland to support move to an integrated European reinsurance platform in Dublin



Chubb

Transfer from Belgian Co to new UK company with EU branches

Partner Re

Moved to Irish Co with European branches.
Previously European company with branches of Bermuda

Services Basis

A number of insurers are looking to operate on a services basis

Any questions?

mohammed.s.khan@uk.pwc.com
+44 (0) 20 7212 3496

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2008 PricewaterhouseCoopers LLP. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

