

GIRO Convention

23-26 September 2008
Hilton Sorrento Palace

The Road to Solvency II

A business perspective

Tom Woolgrove
MD, HBOS General Insurance

Objectives

- Views on Solvency II
- Lessons Learned from ICA and Basle II
- Challenges for Actuarial community
- Challenges for Business
- Implications going forward

Solvency II Framework

- Pillar 1:
 - Solvency Capital Requirement
 - Internal models
- Pillar 2:
 - Supervision
- Pillar 3:
 - Disclosure

Embedding ICA – Strong Progress

- Current ICG – formula based (ECR)
- ICA Submission – May 2008
- Better models – better engagement
- Capital allocations – by product, channel
- Embedding workshops – risk and capital
- Business decision making:
 - Risk selection
 - Reinsurance
 - Captive Reinsurer
 - Pricing

“Joining up the Channel Tunnel”

The Actuarial Profession
making financial sense of the future

Basle II lessons

- Similar goals – similar regulatory uncertainty:
 - Regulatory capital
 - Better risk management
- One Group programme:
 - Initially six divisions plus Group
- Start early – clarity of ‘vision’
- Data, not just models
- Embed ‘use test’
- Internal models – running business vs. capital calculations
- Business programme – not ‘risk’ project

The Actuarial Profession
making financial sense of the future

Solvency II – Key challenges

- Vision
- Models – capital vs. business tools:
 - Approved, on time, on budget
 - Own Risk and Solvency Assessment (ORSA)
 - ‘User friendly’ and real time
- Data quality and consistency
- Embedding and integrating
- Technical QA
- Resourcing vs. BAU
- Uncertainty – lobbying

What’s important?

The Actuarial Profession
making financial sense of the future

Your role

- Business partner
- Provide credibility
- Technical and generalist
- Commercially biased, pragmatic
- No black boxes:
 - Inputs, assumptions, outputs and feedback loops
- Guides, not necessarily leaders
- Translate jargon
- As one with Finance and FS Actuaries

The Actuarial Profession
making financial sense of the future

Business benefits

- Risk as key driver / competitive differentiator
- Sensible pricing
- Capital allocation and pricing aligned to risk
- Investment Appraisal
- Lower volatility
- Channel/Product/Segment choices
- Diversification benefits
- [Groups regulation]

More than 'technical' compliance

The Actuarial Profession
making financial sense of the future

Way forward

- Business lead project
- Challenge our vision
- Define success (and measures of success)
- Identify business benefits:
 - More than lower Solvency Capital Ratio (SCR)
- Commit resources
- Programme disciplines
- Engagement with FSA

High expectations

The Actuarial Profession
making financial sense of the future

Summary

- Good start through ICA
- Your role as:
 - Business partner
 - Teacher
 - Guide
 - [As well as technical skills]
- Balance technical and commercial
- Embedding and integrating – heart of business

Together, we can make it happen
[whatever 'it' turns out to be!]

The Actuarial Profession
making financial sense of the future
