

# Agenda

### Solvency II balance sheet basics

- Background
- · Valuation methodologies
- Own funds / tiering

#### Solvency II balance sheet consequences

- Overview
- Unit-linked business
- Annuity business

This presentation is based on the presenters understanding and interpretation of Solvency II, based on the draft QIS5 Technical Specification issued by the European Commission on 15 April 2010.







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Annuity business	• Un	it-linked business
	• An	nuity business

## Assets

- Article 75:
  - Assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction
- Investments market value
- Reinsurance recoveries in line with TPs
  - explicit allowance for expected counterparty default
- Other Assets in line with IFRS principles



## **Other liabilities**

- Article 75:
  - Liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction
  - No adjustment to take account of the own credit standing of the ... undertaking shall be made
- Contingent liabilities
  - Based on the probability-weighted average of future cash flows over the lifetime of that contingent liability, discounted at the relevant risk-free interest rate term structure
- Pension Scheme Deficit
  - IAS19 basis















Balance sheet volatility					
	Pillar 1	Pillar 2	Solvency 2	Solvency 2 Mitigant	
With-profits	Ring-fenced	Ring fenced	Ring fenced		
Unit-linked	Matched	Volatile VIF asset	Potentially volatile	?	
Property-linked	Matched	Matched	Matched		
Annuity	Stable	Stable	Potentially volatile	?	
Protection	Stable	Stable	Stable		
General Insurance	Stable	Stable	Potential volatility	Hedge out rates risk	

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	NAV and SCR vs Unit Pr	ice
Invested in Unit	s Invested in Cash	BSCR
100	0	4.0
96	4	3.6
92	8	3.2
88	12	2.9























Balance s	heet volatil	lity		
	Pillar 1	Pillar 2	Solvency 2	Solvency 2 Mitigant
With-profits	Ring-fenced	Ring fenced	Ring fenced	
Unit-linked	Matched	Volatile VIF asset	Potentially volatile	Solvency 2 version of actuarial funding
Property-linked	Matched	Matched	Matched	
Annuity	Stable	Stable	Potentially volatile	Shorten / reduce credit allocation
Protection	Stable	Stable	Stable	
General Insurance	Stable	Stable	Potential volatility	Hedge out rates risk

