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What will the post 2016 world look and feel like?

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Areas to consider

- Information to market
- Interaction with Regulator(s)
- Internal processes, and auditability

ertise
ponsorship
Thought leadership
Progress
Community
Sessional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support

Information to market

- Market's concerns
 - Distributable cash,
 - value of new business
 - solvency
- Insurer's concerns
 - impacts on KPIs shared with market, and used for remuneration
 - Removal of “long term business fund” concept delinks distribution from the regulatory basis – though solvency remains key
 - Need to join the dots, else tensions and confusions between reporting bases
- Rating agencies/Members/policyholders' concerns??

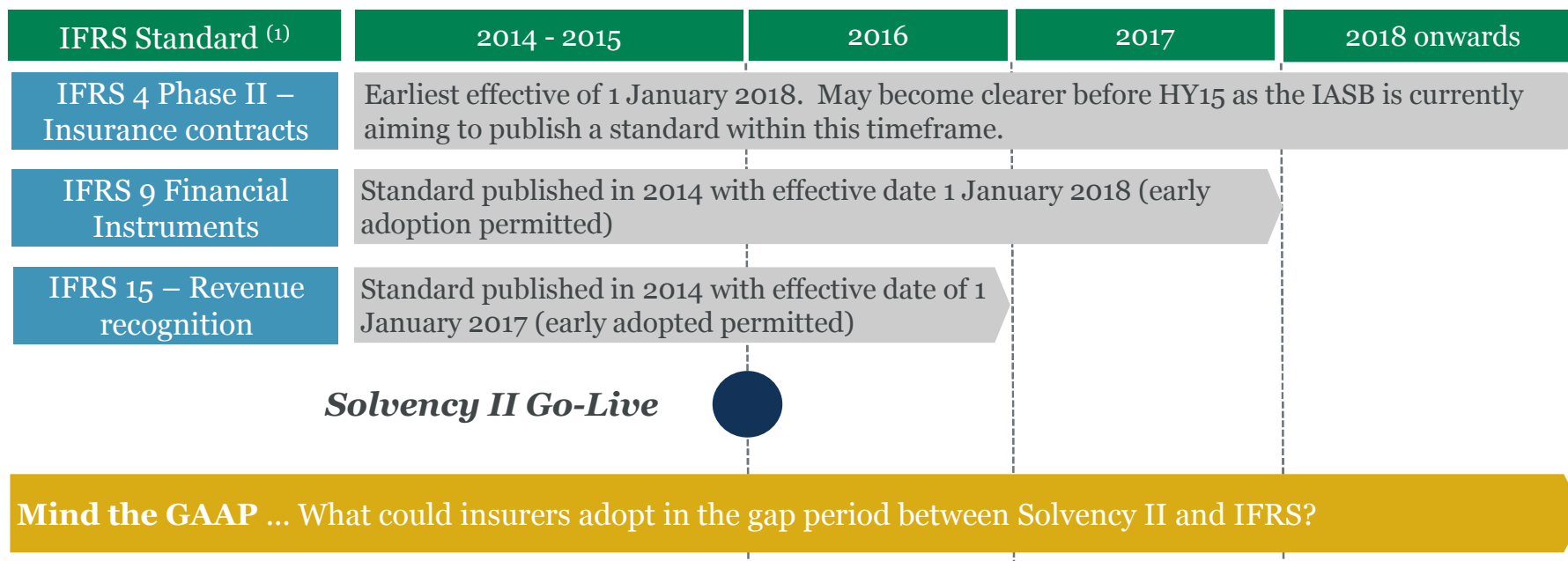
Information to market

- While Solvency I regulatory regime will be replaced from 1 January 2016.....
 - Old' UK GAAP (and so legacy GAAP under IFRS 4 and FRS 103) for life insurers is largely the current (Solvency I) regulatory result.
 - For IFRS reporters, the timelines for Solvency II and IFRS 4 Phase II are not aligned.
 - For UK GAAP reporters, it is not yet clear if, and when, the FRC will update FRS 103 for Solvency II and/or IFRS 4 Phase II.

What accounting policies to apply to life insurance contracts in the period starting from 1 January 2016, and EV needs?

Information to market

IFRS v. Solvency II – timeline as at early September 2014



⁽¹⁾ Subject to EU endorsement, for relevant entities

- Investment contracts remain outside IFRS 4, and need some form of EV
- Insurance contracts could use EV for current GAAP, valuing amortisation of IFRS Phase II margins, or Solvency II risk margins/hidden profits

Information to market

- Under IFRS 4 Phase II the direction of travel of accounting policy may mean Solvency II unsuitable for accounts.
- Continuation of existing accounting policies is permitted,
- Early indications - listed groups may continue with existing GAAP, provided period to Phase II implementation does not grow. Mutuels more varied.

2012	2013	2014	2015	2016	2017	2018	2019
				Solvency II live			
		<i>Maintain current approach under IFRS 4 / FRS 103</i>		<i>Maintain current approach?</i>		IFRS 4 Phase II live?	
				<i>Early adopt IFRS 4 Phase II?</i>			
				<i>Adopt (modified) Solvency II?</i>		FRC updates to FRS 103 based on Phase II?	
				<i>Other 'more relevant and/or reliable' policies?</i>			

Interaction with Regulator(s) - paper

- Extensive regulatory reporting of results and balance sheet, to new and demanding time scales
- Formal qualitative reporting through the RSR, and its sister the SFCR, as well as the ORSA
- Reporting on impact of matching adjustment, volatility adjustment, transitionals on technical provisions impacts
- Major shift on Group supervision and resultant Group interaction – Group internal model, Group SCR, Group Risk Management, and the college of supervisors that comes too.
- Interaction beyond PRA - updates to EU regulation, EIOPA stress tests, global standards, G-SIIs.

More, and standardised, disclosure, more compare and contrast

Interaction with Regulator(s) - capital

- Internal model follow ons
 - changes and re-approvals
 - renewal of calibrations, models and radar for new data/research
 - aftermath of approval to move on from partial internal models....
 - Integration with the end result of Early Warning indicators?
- Pillar 2 has more than just ORSA. ICA still lives....
 - but on what b/sheet
 - and what model?
- Continued need for Standard Formula/Partial Internal model firms to demonstrate acceptability of the standard result?

Will regulator(s) want to tinker with capital, or margins over it

Interaction with Regulator(s) - business

- Managing and monitoring matching adjustment portfolio compliance, in particular:
 - Managing new annuity blocks or reinsurance
 - What does buy and hold really feel like
 - New asset classes
- Managing unit linked business – particularly with the lowering of the close matching requirement?
- Managing risk margins and capital through group structures such as central reinsurance entities
- How will the Actuarial Function, particularly for GI insurers, find its place in the organisation – no change or new deal?

Everyone feeling their way, so delays to agreement?

Internal processes and auditability

- Answer may be not just in speeding up current regulatory reporting processes but even more use of
 - Rolling numbers from pre year-end closes
 - Performing analyses off year-end critical paths; analyses such as profit and loss attribution, risk margin estimation, validation, calibration
- Compliance needed with regulation but,
 - EIOPA driven regulation will see little PRA gloss added
 - Actuarial Function must be able to confirm compliance but main discussion may be with auditors - a materially correct result

EIOPA timetable, and timescales, for regulator driven factors very important – such as fundamental spread, volatility adjustment, risk free curve post credit deduction.

Internal processes and auditability

- Likely to be running both Solvency I and II
 - To support accounts
 - To underpin certain transitional waivers
- So Pillar 1 internal model, Pillar 2 internal model and different b/sheets still in play – and timescales just get tighter
- Multiple “internal model” clones, post approval, due to PRA imposed calibrations, contract boundaries, limited discount rates, etc.
- At what point does the actuarial team get fully comfortable with how numbers move under the new regime?

Time to bed in understanding as well as processes before the next rush?



Questions



Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.