

The Actuarial Profession
making financial sense of the future

Solvency II


Kathryn Morgan, Annette Olesen

33rd ANNUAL GIRO CONVENTION

Hilton Vienna Hotel, Am Stadtpark

Solvency II – The UK perspective


Kathryn Morgan



The Actuarial Profession
making financial sense of the future

Introduction

- S2 for the UK
- Competition #1
- Competition #2



The Actuarial Profession
making financial sense of the future

Solvency 2 – UK perspective

- S2 is not just ICAS from Europe
- S2 will change the way we do things
- S2 is happening now
- So, what is the profession doing?

What we've done - UK

- Set up the GI working group
- Sent CEIOPS a response to their CP
- Spoken to CEIOPS about cost of capital
- Sent comments to the FSA on QIS2
- Been on the FSA ISG
- Been on the FSA ISG expert group
- Linked up with the life guys

What we've done - EU

- Sent comments to Annette's working group
 - CEIOPS' CPs
 - Role of the Actuary
- Sat on the GCIC

What we're doing currently - UK

- Best estimate note for the Treasury
- Thinking about underwriting risk and the SCR with the FSA following QIS2 results
- Plus all the comms we did before

Reaching the right ears

- FSA
- Treasury

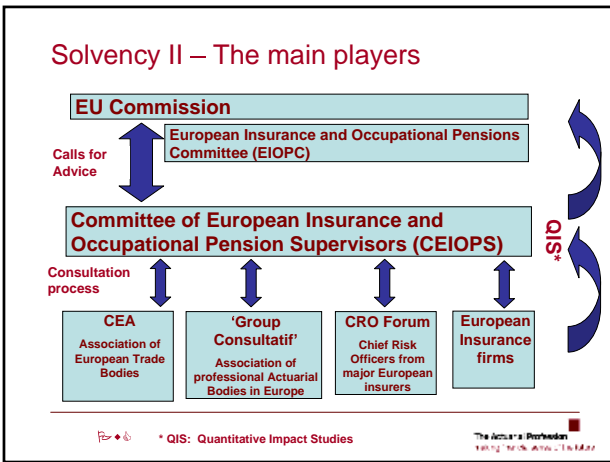


Solvency II – The European perspective

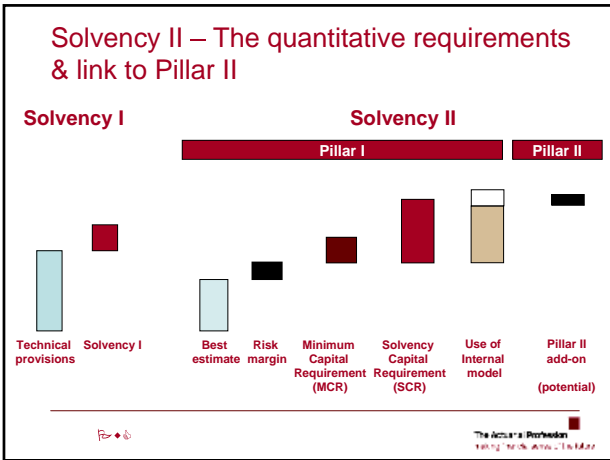
Annette Olesen



Solvency II – The main players



Solvency II – The quantitative requirements & link to Pillar II

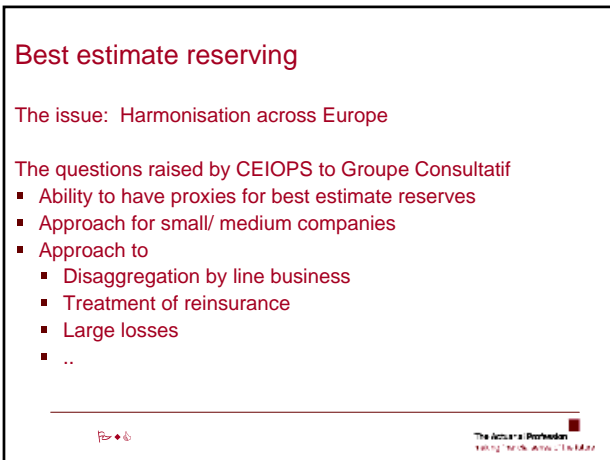


Best estimate reserving

The issue: Harmonisation across Europe

The questions raised by CEIOPS to Groupe Consultatif

- Ability to have proxies for best estimate reserves
- Approach for small/ medium companies
- Approach to
 - Disaggregation by line business
 - Treatment of reinsurance
 - Large losses
 - ..



Risk margins

Current discussion point

Percentile Approach

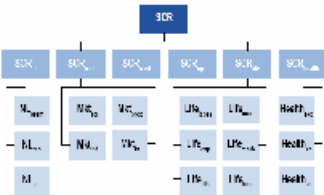
- Recommended by European Commission
- The 75% percentile of the discounted ultimate future payments less the best estimate
- Previously implemented: Australia
- Tested in QIS1
 - Including level of sufficiency
- Included in QIS2

Cost-of-Capital Approach

- Recommended by CEA and CRO Forum
- Cost for future required (marginal regulatory) capital to run off the existing liabilities
- Currently piloted in: Switzerland
- Not tested in QIS1
- Included in QIS2
 - Limited guidance



The SCR formula



- QIS2 – GC's role
 - Feedback on SCR structure
 - Expected developments
- QIS3
 - MCR versus SCR
 - Group considerations
 - April – July 2007



The Role of the Actuary

- Emphasis on the role of the Actuary within CEIOPS work
- Impact on actuaries include:
 - Request for use of multiple methods in reserving
 - Reporting/ documentation
 - Measurement
 - Fit and proper issues
 - ...
- GC proposal on The Role of the Actuary
 - Applicability to UK? Lack of non-life focus
 - Ongoing discussion



The Pillar II and Pillar III developments

Recent consultations CP13/ CP14 – closed September 06

- Encouraged by CEIOPS support of
 - internal models
 - allowance for diversification benefits
- Need for clarification of Internal Risk Capital Assessment (IRCA)
 - Link to Pillar II
- Further development/ thinking required – challenging areas



The Actuarial Profession
MAKING THE DIFFERENCE TO THE MARKET

Questions?



The Actuarial Profession
MAKING THE DIFFERENCE TO THE MARKET

Contact details - presenter

Kathryn Morgan
CFS
Tel: 0161 903 4215
Email: kathryn.morgan@cfs.co.uk

Annette Olesen
PricewaterhouseCoopers
Tel: +44 (0) 20 7213 3394
Email: annette.olesen@uk.pwc.com



The Actuarial Profession
MAKING THE DIFFERENCE TO THE MARKET
