Solvency II – The UK perspective
Kathryn Morgan

Introduction
- S2 for the UK
- Competition #1
- Competition #2
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
- CEIOPS
- EC
- GIB
- Life S2 project
- International Committee
- GCIC
- GC S2 project

Solvency II – The European perspective

Annette Olesen
Solvency II – The main players

The main players

- EU Commission
- European Insurance and Occupational Pensions Committee (EIOPC)
- CEA: Association of European Trade Bodies
- Group Consultatif: Association of professional accounted bodies in Europe
- CRO Forum: Chief Risk Officers from major European insurers
- CEIOPS: Committee of European Insurance and Occupational Pension Supervisors
- European insurance firms

Consultation process

Solvency II – The quantitative requirements & link to Pillar II

Solvency I

- Technical provisions
- Solvency I

Solvency II

- Best estimate
- Risk margins
- Minimum Capital Requirement (MCR)
- Solvency Capital Requirement (SCR)
- Use of internal model
- Pillar II add-on (potential)

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

Questions?

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