The Post Solvency II World

What will your risk, finance and actuarial functions look like?

GIRO: 25th September 2008
Agenda

Reporting
Processes
Roles and responsibilities
Costs
Benefits/Opportunities
Market insights
Questions
### Reporting

**How will your reported numbers have changed?**

<table>
<thead>
<tr>
<th><strong>Now</strong></th>
<th><strong>Post Solvency II</strong></th>
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<tbody>
<tr>
<td><strong>Statutory reporting:</strong></td>
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<tr>
<td>• Annual accounts</td>
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<td><strong>Financial reporting:</strong></td>
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<tr>
<td>• IFRS</td>
<td>• IFRS Phase II (TBC)</td>
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<td>• UK GAAP/Other local GAAP</td>
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<td><strong>Regulatory Reporting:</strong></td>
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<td><strong>Solvency:</strong></td>
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<tr>
<td>• UK – ICA (PRIVATE)</td>
<td>• Annual solvency &amp; financial condition report (PUBLIC):</td>
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<tr>
<td>• EU – Solvency I (PUBLIC)</td>
<td>• Business overview and performance</td>
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<td>• EU Groups – Capital Adequacy Regime</td>
<td>• Governance</td>
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<td></td>
<td>• Valuation</td>
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<td></td>
<td>• Risk management</td>
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<td>• Capital management</td>
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<td>• Calculations of SCR</td>
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<td>• ORSA (PRIVATE)</td>
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<td><strong>Reporting to rating agencies (PRIVATE)</strong></td>
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<td><strong>Reporting to Rating Agencies (PRIVATE)</strong></td>
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</table>
Stakeholder tension

Regulators

Rating agencies

Insurer

Capital Markets

Reporting
Integration with core business processes

- Corporate governance structure
- Risk policies
- Risk process and quantification
- Board and senior management
- Model Process
- Capital Management
- Business strategy and planning
How your organisational structure will have changed

System of governance

- Well defined, transparent and consistent lines of responsibilities, appropriate segregation of duties
- Responsibility is on the company to define functions appropriate to current structure and requirements

Processes

- Internal audit
- Risk management
- Internal control
- Integrated team
- Actuarial function

Own risk and solvency assessment (ORSA)
Processes

Good practice in risk management - Now

Solvency I

Environment
- Investors
- Analysts
- Regulatory
- Rating Agencies

Strategy
- Economic Capital
- Risk Diversification
- Portfolio Optimisation

Process
- Risk Modelling
- Risk Mitigation Strategies
- Risk Management Frameworks

Infrastructure
- Data
- Modelling
- Reporting

Disclosure
- Stakeholder Management
- Accounts
Good practice in risk management – by 2012
How will the actuarial processes change within your company?

Your reserving process now

Processes

Data capture ➔ Data manipulation ➔ Actuarial analysis

Peer Review ➔ Management Review ➔ Finance adjustments ➔ Results booked

Claims Review ➔ Underwriting Review ➔ Reinsurance Review ➔ Board oversight
How will the actuarial processes change within your company?

Your capital and reserving process in future

Processes

Data capture → Data manipulation → Actuarial analysis

Peer Review → Management Review → Finance adjustments → Results booked

Claims Review → Underwriting Review → Reinsurance Review → Board oversight
How will the actuarial processes change within your company?

Your capital and reserving process in future
Roles and Responsibilities
How will the roles of the finance, risk and actuarial functions change?

- Management Role
- On the ground
Risk Management – how good are insurers?

Red = currently weak, green = currently strong
How will the actuarial processes change within your company?

- Organisational and resource impact?
- Will accountants/underwriters/management need to become risk & capital literate?
- Will finance/actuarial teams need to integrate?
- Are firms recruiting, training?
What will be the costs associated with Solvency II and can these be balanced by benefits?

<table>
<thead>
<tr>
<th>Ongoing Additional Costs</th>
<th>Potential benefits</th>
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<tbody>
<tr>
<td>Staff – development, retention, management</td>
<td>Competitive advantages as resources become increasingly scarce</td>
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<tr>
<td>ORSA – embedding and implementing</td>
<td>Great transparency and a more informed basis for decision making</td>
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<td>Greater investment in data systems/teams</td>
<td>More consistent and reliable data</td>
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<tr>
<td>Model approval vs. SCR</td>
<td>Potential capital benefits of internal model calculation</td>
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<tr>
<td>Public disclosure – timeliness and quality of output</td>
<td>Increased investor/consumer confidence</td>
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‘Additional non-capital cost of Solvency II implementation for all UK firms, …, is approximately £61m as a one-off cost, and an additional £5m on an ongoing basis each year.’ FSA, QIS3 for Solvency II
Benefits/Opportunities

Solvency II – commercial advantages

• Risk vs. Reward
  • Better control/link between risk and capital management
  • Ability to consider impact in strategic decisions
  • Enhanced profitability of products through alignment with risk appetite

• Transparency – demonstrate improvement in efficiency to the market
  • Increased investor and customer confidence
  • Potential lower cost of capital

• Opportunity to upgrade systems and processes
  • Synergies with IFRS?

• Driver for group and operational restructuring (outsourcing?)
• Catalyst for potential consolidation
• Benefit from closer relationship with supervisors
### Market Insights

#### What are companies doing now?

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<thead>
<tr>
<th>Bancassurers / EU Groups</th>
<th>P&amp;C / London Market</th>
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<tbody>
<tr>
<td>• Early movers</td>
<td>• Previously lagging</td>
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<td>• Now engaging</td>
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### Activities

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<th>General education and awareness training</th>
<th>Board briefings, training programmes, lobbying</th>
<th>Project Set Up</th>
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<tr>
<td>Gap/ Readiness Assessment</td>
<td>Strategic vision clarified</td>
<td>Group Restructuring</td>
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<td>Model – Embedding and Control Framework</td>
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<tr>
<td>Examining risk appetite</td>
<td>QIS 4</td>
<td>Data warehouse, model specification &amp; build</td>
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<td>Lobbying (including groups/proportionality)</td>
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Market Insights

European restructuring – What is happening in the market?

Swiss Re
Creation of two Luxembourg-based risk carriers and branch network across Europe

MBIA
Simplification – now a UK company with a French branch

ZFS
Creation of Pan European Ireland based U/W Branches/ Services basis across Europe

XL
Transfer of UK branch to Ireland to support move to an integrated European reinsurance platform in Dublin

Chubb
Transfer from Belgian Co to new UK company with EU branches

Partner Re
Moved to Irish Co with European branches. Previously European company with branches of Bermuda

Services Basis
A number of insurers are looking to operate on a services basis
Any questions?

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