Solvency II is important!

And it’s now!

Time scales

2005 2006 2007 2008 2009 2010

- Framework Directive Published
- Full Implementation
- 3 waves of EC Call for Advice
- Quantitative Impact Studies
The Three Pillar Approach

Solvency II

PILLAR I
- QUANTITATIVE REQUIREMENTS
  - Technical provisions
  - Investment rules and AIM
  - Capital rules

PILLAR II
- SUPERVISOR REVIEW
  - Internal controls and sound risk management
  - Supervisory intervention

PILLAR III
- DISCLOSURE REQUIREMENTS
  - Disclosure
    - Frequent
    - Forward-looking
    - Relevant

From Solvency I to Solvency II

Solvency I
- Technical provisions
- Solvency II
- Best estimate margin
- Minimum Capital Requirement
- Solvency Capital Requirement

The Solvency II solvency capital process

Source: CEIOPS CP7
Key themes

- Market consistent valuation
- Internal capital assessment
- Risk based approach
- Use tests
- Incentives for good Risk management
- Senior Management Responsibilities
- Regulatory relationship

Solvency II compared to the ICAS framework

Solvency II
- MCR
- SCR
- Pillar I
- Pillar II

ICAS
- MCR
- ECR
- Pillar I
- "Pillar I.5"
- Pillar II

Key links to UK profession's current focus areas...

ICAS
- Risk margins
- Internal model requirements
- Actuarial function requirements
- SCR formula hard target

GRIT/ GIB
- Reserve variability
- Methodology/ benchmarks
- Professionalism
- Guidance notes (?)

IFRS
- Similar technical issues drive both
Key issues for Solvency II

- No current consistency across Europe in best estimates
- Harmonisation in approach to risk margin
- From UK perspective –
  - Similar framework to ICAS
  - Differs in some respects e.g. components, potential solvency formula

Key areas of discussion

- Rules vs principles based
  - A) Portfolio invariant; B) Percentile world
- Role of risk margin (and link to capital)
- Diversification allowance
- Group issues including movement of capital
- Treatment of reinsurance/ allowance for wider risk mitigation
- Challenges across Europe
- QIS

Challenges for actuaries include..

- Identification of risk margins in reserves
- Identification of the appropriate methods
- Disclosure requirements and reports on actuarial work and judgements
- Guidelines and rules for internal models to be acceptable
- Approaches to allowance for outwards reinsurance
- Define capital requirement given risk of the business
- Requirements for the actuarial function
What should you do?

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<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tr>
<td>Option 1</td>
<td>Listen to 1-2 talks per year and wait ..</td>
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<tr>
<td>Option 2</td>
<td>Get engaged in the debates/ the profession/ consultation CEIOPS/ QIS</td>
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<td>Option 3</td>
<td>Consider implications for your company</td>
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</tbody>
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Further information

Websites
- [www.ceiops.org](http://www.ceiops.org)
- [www.pcaactuaries.org](http://www.pcaactuaries.org)
- [www.iaisweb.org](http://www.iaisweb.org)
- [www.cea.assur.org](http://www.cea.assur.org)

Wanting to get involved:
- UK profession – Contact Kathryn Morgan or Peter Stirling

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