33rd Annual GIRO Convention
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Vienna
UK Domestic Update and Solvency 2 – Pillar 3
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Outline of presentation

- UK Domestic Update
  - FSA 2010
  - ICAS principles
  - Insurance SPV Framework
- Solvency 2 – Pillar 3
  - Main principles
  - Solvency and Financial Condition Reporting
  - Timetable/Next steps

UK Domestic Update

CP06/16 - Prudential Changes for Insurers

Two main proposals:

- Pillar 1 proposals for life insurers
- Further development of our ICAS framework
**UK Domestic Update**

**Further development of our ICAS framework**

- Inception through CP190, CP195 and PS04/16
- Propose introducing ICA sub-principles and associated guidance
- INSPRU 7.1 (formerly PRU 2.3)
- Consistent with our 2010 vision

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**FSA 2010 – Aims:**

- to provide firms with the flexibility better to align good regulatory outcomes and good business practice
- better treatment of consumers can be delivered through firms’ own initiatives and actions, rather than through regulatory detail
- consolidate further London’s position as the location of choice for mobile capital
- encapsulates our answer to the challenges posed by the Better Regulation agenda, which we cannot ignore

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**FSA 2010 – which means that:**

- we will have changed the balance of the regulatory regime towards principles
- firms will be managed to deliver against those principles
- we will be an effective, genuinely risk-based regulator, where the costs of regulation are justified by the benefits
UK Domestic Update - ICAS

Sub-Principle 1
Where a firm is carrying out an assessment of the adequacy of its overall financial resources in accordance with GENPRU 1.2, the assessment of the adequacy of the firm’s capital resources must:

1. reflect the firm’s assets, liabilities, intra-group arrangements and future plans;
2. be consistent with the firm’s management practice, systems and controls;
3. consider all material risks that may have an impact on the firm’s ability to meet its liabilities to policyholders; and
4. use a valuation basis that is consistent throughout the assessment.

UK Domestic Update - ICAS

Sub-Principle 2
Where the FSA requests a firm to submit to it a written record of the firm’s assessments of the adequacy of its capital resources carried out in accordance with sub-principle 1, those assessments must include an assessment comparable to a 99.5% probability over a one year timeframe that the value of assets exceeds the value of liabilities, whether or not this is the probability measure otherwise used in the firm’s own assessments.
UK Domestic Update - ICAS

Sub-Principle 3
The written record of a firm’s individual capital assessments, carried out in accordance with sub-principle 2, submitted by the firm to the FSA must:

1. document the reasoning and judgments underlying that assessment and, in particular, justify:
   a. the assumptions used;
   b. the appropriateness of the methodology used; and
   c. the results of the assessment.

2. identify the major differences between that assessment and any other assessments carried out by the firm using a different probability measure.

UK Domestic Update

ABI/IUA/Lloyd’s/LMA

Guide to the ICA process for insurers

• Intended to supplement our principles and guidance and consistent with the FSA 2010 agenda

UK Domestic Update

Policy Statements for:

• Chapter 3 of CP05/14: Quarterly consultation (No. 6) – Financial Reinsurance Disclosures;
• CP06/12: Implementing the Reinsurance Directive;
• Chapter 5 of CP06/10: Strengthening Capital Standards – Restructuring the Handbook; and
• Chapter 4 of CP06/13: Quarterly consultation (No. 9) – ISPV Fees
UK Domestic Update

ISPV Framework

We confirm:

• Intention to allow ISPVs in the UK as at 31 December 2006
• Fit-for-purpose authorisation and supervision for UK ISPVs
• Waiver for cedant based on ICA

Solvency 2 – Pillar III

Context:

Pillar 1 – Capital (SCR) requirements
Pillar 2 – IRCA and Supervisory review
Pillar 3 – Disclosure and Transparency

Solvency 2 – Pillar III

Pillar III Working Group

Currently, 8 main principles to be proposed to the Commission on the principles of supervisory reporting and public disclosure under the Solvency 2 environment
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<th>Solvency 2 – Pillar III</th>
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<td>1. Information required under Pillar III shall include all information that is relevant to perform an assessment of an insurance undertaking’s solvency and financial condition, including business overview, governance, valuation basis, performance and risk and capital management, as well as information necessary to support market transparency and discipline.</td>
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<td>2. Information required under Pillar III shall be provided on a timely and adequate basis and be accessible and readily understandable.</td>
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<td>3. Information required under Pillar III shall include information on a solo and on a consolidated basis.</td>
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<td>4. Disclosures made by insurance undertakings under financial reporting, listing or other requirements may be relied upon to fulfil the equivalent Pillar III disclosure requirements.</td>
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<td>5. Insurance undertakings shall adopt a formal policy to comply with the established disclosure requirements and have policies for assessing the appropriateness of their disclosures, including their verification and frequency.</td>
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<td>6. Information required under Pillar III that is considered confidential and of a proprietary nature shall not be publicly disclosed.</td>
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<td>7. Information required under Pillar III shall allow the policyholders’ assessment of the insurance undertakings’ obligations and the risks inherent in the products.</td>
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8. Information required under Pillar III shall be disclosed on an annual basis at a minimum. More frequent disclosures may be deemed necessary in the light of the relevant characteristics of the insurance undertaking's business.

Solvency and financial condition reporting

• Under the supervisory and public disclosures principles, insurance undertakings shall produce a solvency and financial condition report that incorporates material information regarding the following subjects:

Business Overview

The information shall include any material changes in business and owner structure that have taken place during the year. In particular:

• Nature of the insurer’s business and the external environment
• Objectives and strategies
• Governance
Solvency 2 – Pillar III

Solvency and financial condition assessment

Key areas:

1. Valuation basis and reconciliation with accounting, particularly:
   - Technical provisions
   - Investments

2. Financial performance

3. Risk and capital management, in particular:
   - Risk management processes and controls
   - Risk assessment and risk mitigation

4. Internal Capital Assessment

   The information shall include a detailed description of the insurance undertaking’s available capital and capital requirements calculated according with IRCA or the approved model.
Solvency 2 – Pillar III

Model/IRCA information

- Level of confidence and time horizon
- Risks analysed
- Valuation methodologies and key assumptions
- Stress and scenario tests applied
- Diversification assumptions and effects
- Capital transferability/fungibility
- Management actions
- Comparison with the standard SCR
- Process of validation of the IRCA or internal model

Solvency 2 – Pillar III

Timetable/Next Steps

- Advice paper to the Commission by end October regarding Level 1 criteria and consultation to December
- Level 2 criteria by next March
- Level 3 criteria by mid next year

FSA Pillar 3 Expert Group to be formed