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SII Balance Sheet Assurance –what did we learn? And Meet S2D2!

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Introductions



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What we are covering today

1. Background to the Solvency II Balance Sheet Assurance exercise
2. Common issues with Best Estimate Liabilities
3. Common issues with Risk Margin
4. Common issues with SCR (SF)
5. Common issues with Transitionals
6. Audit requirements
7. S2D2
8. Questions



Background

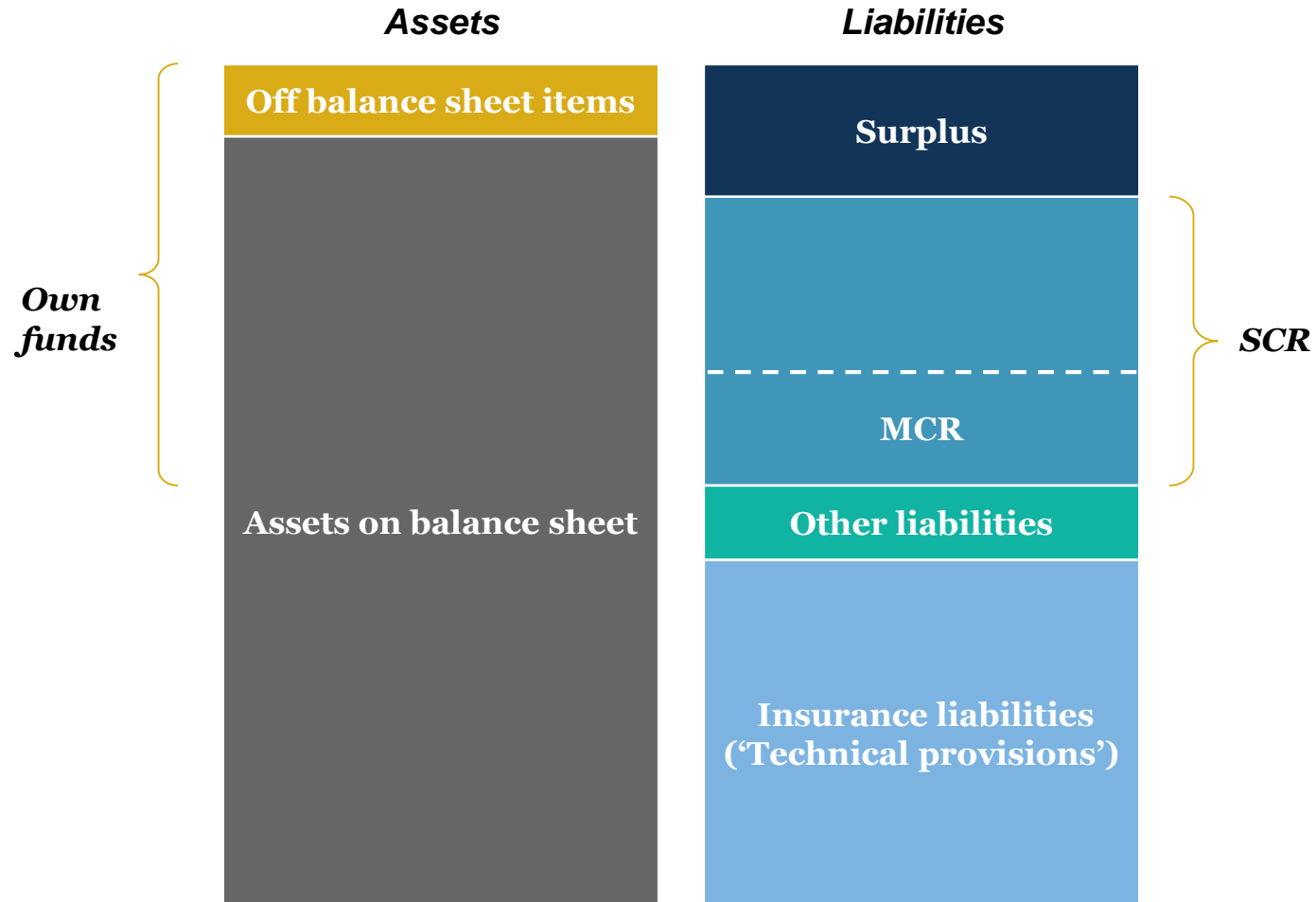
- PwC audits more than 40 UK Life insurance companies and mutuals.

- We have performed SII Balance Sheet (BS) assurance for the majority of our audit clients.
- This included testing material SII manual provisions for the technical provisions.

- We have provided SII SCR assurance for 5 UK Life insurers.
- This included review of manual calculations and these calculations under stress



Overview of the SII Balance sheet



Best Estimate Liabilities (BEL) – Key Issues

YE14

- Modelling approach of cashflows
- Identification of RFFs
- Shareholder transfers in respect of future bonuses
- Contract boundaries
- Segmentation / unbundling / hybrids
- Surplus funds
- Risk Mitigating Techniques
- Unusual assets
- ENIDs

YE15

- Surplus funds / treatment of planned enhancements
- PRA approved applications of MA, VA and transitionals



Risk Margin – Key Issues

YE14

- Definition of hedgeable versus non-hedgeable risks
- Are all market risks hedgeable?
- The use and justification of simplifications
- The choice of risk carriers for run off

YE15

- Lack of analysis of change – limited narrative



SCR– Key Issues (SF Firms)

YE14 and YE15

- Treatment of callable bonds
- CDS in the spread widening stress
- Allocation of assets by sub-category
- Demonstrating ownership of collateral
- Basis risk on risk mitigating techniques
- Applying stresses only where it is onerous to do so
- Splitting guaranteed and discretionary benefits
- Auditing loss absorbing capacity of TPs
- Turning asset stresses into liability side shocks
- Applying interest rate shocks
- Counter-party risk capital charges where there is no external SFCR



Transitionals– Key Issues

YE14

- Not approved by the PRA at the point of YE14 review

YE15

- Assurance – huge adjustment
- Difficult metric – brings in pillar I and pillar II
- Requirement to recalibrate every 2 years – SS6/16 provides confirmation



Audit requirements at YE16

On 9 September 2016 the PRA released [Policy Statement 24/16: Solvency II: external audit of the public disclosure requirement](#).

The following SFCR elements will be “in audit scope”

- The Solvency II balance sheet
- The SCR calculated using the standard formula (where applicable), and the MCR
- Narrative disclosures on the valuation of the Solvency II balance sheet, capital and own funds
- Reporting of the entities within the scope of the group



Audit focus for YE16

Shift of focus from numbers to narrative reporting

- 1 The first SFCR will require **substantial effort**
- 2 Disclosure is extensive – Use charts and tables to **convey data** efficiently
- 3 **Link** wherever you can to **existing Pillar 3 reporting** data
- 4 Have **clear owners** across risk, actuarial and finance
- 5 Consider **what the SFCR says about you**
- 6 Think about how the SFCR fits into holistic corporate reporting
- 7 Can you link logically with the financial statements?



What is S2D2?

1

S2D2 is a web-based tool accessible from your PC or tablet to visually and interactively review a Pillar 3 submission

2

It runs from the XBRL submission - this is uploaded via a web portal to a secure PwC server

3

The output is provided back on the same portal shortly thereafter

4

S2D2:

1. Visualises the data to enable a quicker and insightful review
2. Verifies investment data to external data providers (where available)
3. Validates the contents of the QRT's in line with the EIOPA/PRA requirements along with PwC's own integrity checks

5

The tool can be used by anybody involved with regulatory reporting but is targeted at those responsible for signing off the return

6

For further details contact us on S2D2@uk.pwc.com



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Questions

Comments

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