

Managing interest rate risk under Solvency II
 September 2016
 Emily Penn, Head of Capital Efficiency, LV=



Solvency II volatility


The Actuary
 The magazine of the actuarial profession

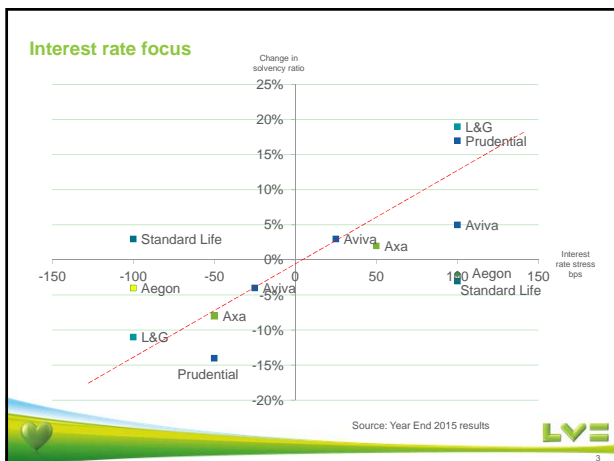
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'Complex volatility' of Solvency II could put off investors, warns Moody's

Increased volatility in the capital requirements being placed on insurers under Solvency II could make investors 'skittish', Moody's has warned.

23 MAY 2013 | THE ACTUARY NEWSDESK: NICK MANN







Solvency II volatility

InsuranceERM
The online resource for enterprise risk management

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Low interest rates behind L&G's solvency ratio 11-point drop
09 August 2016

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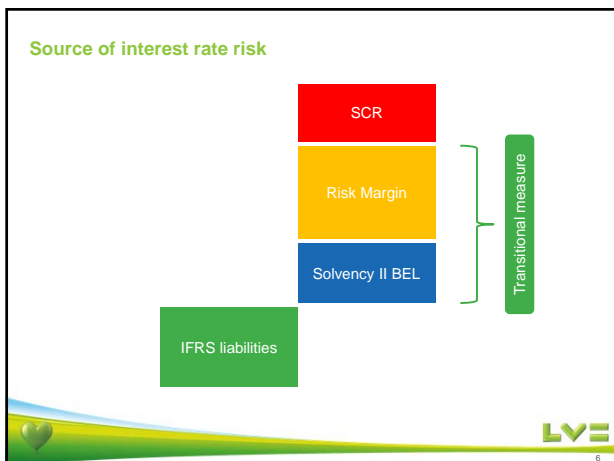
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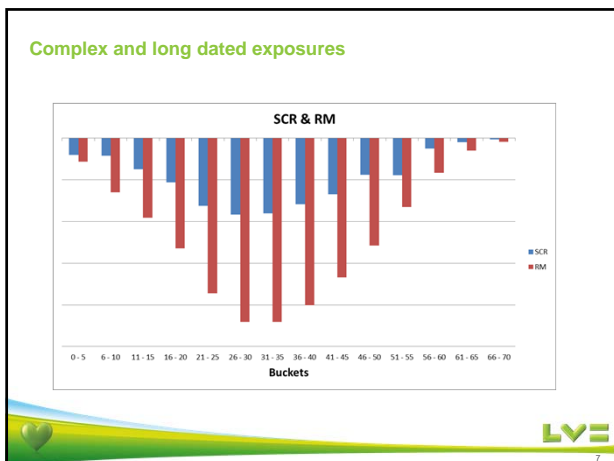
Asian risk margin blamed for Prudential's drop in solvency ratio
11 August 2016

Published in: Risk, Risk management, Capital, Capital management, Financial results, Capital models, Regulation, Solvency II, UK, ROR
Company: Prudential

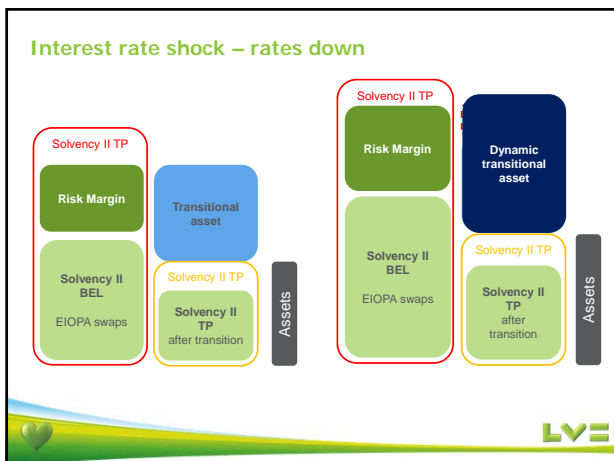
Prudential's Solvency II ratio has fallen by 18 percentage points to 175% across the first half of 2016, as falling interest rates took their toll.

LVE









PRA SS 6/16

'a firm [may apply to] carry out a recalculation of the transitional measure at any time if the firm's risk profile has materially changed'

'changes in operating conditions, including in interest rates or market prices of other financial assets leading to revised market risk exposures'

BANK OF ENGLAND PRUDENTIAL REGULATION AUTHORITY

(i) change in the risk-free rate since the date of the last recalculation;
 (ii) impact on a firm's solvency coverage ratio; and
 (iii) impact of a recalculation on a firm's solvency coverage ratio.

50bps
10yr

5%
CCR

Metrics to manage

- IFRS
- Maximising surplus capital
- Stabilising surplus capital static transitional measure
- Stabilising surplus capital dynamic transitional measure
- Economic capital

Conflicting metrics

	IFRS	IFRS vs. S2 BEL	Risk margin	SCR
IFRS	✓			
Maximise surplus	✓	✓		
Stabilise surplus static transition	✓	✓	✓	✓
Stabilise surplus dynamic transition	✓			✓

Stabilising surplus

	IFRS	IFRS vs. S2 BEL	Risk margin	SCR
Stabilise surplus static transition	✓	✓	✓	✓
Stabilise surplus dynamic transition	✓			✓

Manage with surplus Tactical hedging
Address risk drivers Partial hedging

