

How Solvency II can be useful in the Boardroom

5 June 2018

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Contents

Background

Who would choose to be a NED?

What does good look like?

Assessing Effectiveness

NED job design & challenge

How does Solvency II help?

- ORSA, SFCR & RSR

Summary

How does Solvency II help?



How does Solvency II help?



How does Solvency II help?

It puts the Board in charge

It describes frameworks for financial soundness and good governance

Who'd be a Non-Executive Director?



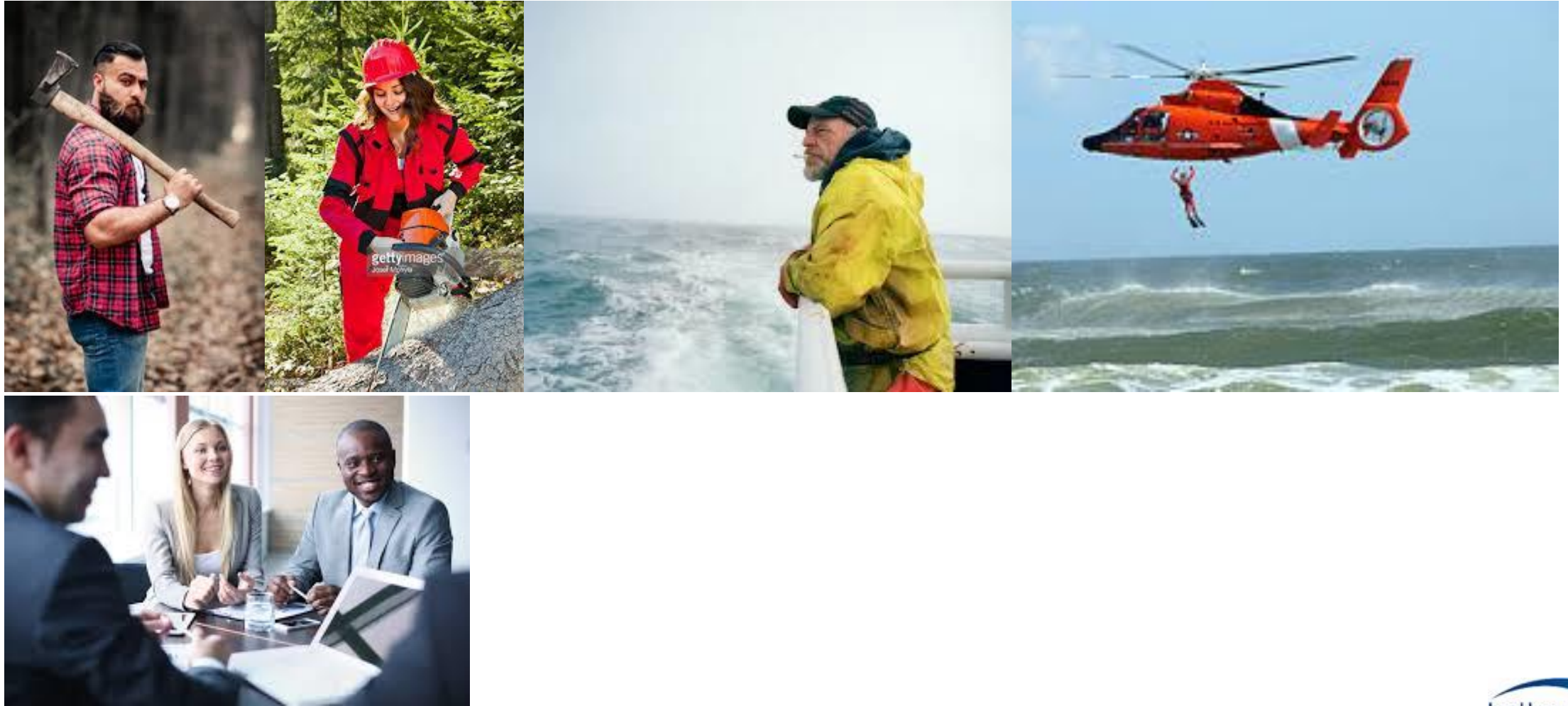
Who'd be a Non-Executive Director?



Who'd be a Non-Executive Director?



Who'd be a Non-Executive Director?



Who'd be a Non-Executive Director?



Non-Executive Director is nowhere to be seen

Dangerous?

Despite NEDs being:

- Talented & successful
- Personally robust
- Proficient business sense
- Experienced
- May have expertise
- Willing to commit, to help
- Keen to be part of a team
- Putting in the hours

The reality is:

- The role is part time
- Information is asymmetric
- The risks are significant
- The public is not sympathetic
- The demands are unrealistic
- The pay is poor for risks(?)
- Always take the blame
- On the hook

What does good look like?

Job of the Board

- To appoint the Executive team
- To agree the strategy
- To drive the culture
- To challenge management
- To ensure effective risk management, internal control & governance
- To monitor performance
- To balance stakeholder needs
- To be held to account by the regulator

What does good look like?

This



Not this



Questions about effectiveness

1. Do Board and Committee papers help you do your best work?

2. If the materials were better, could you challenge better?

Solvency II supports the first and expects the second

How does Solvency II help?

Because you are in charge, you can

- ask for synthesis, not analysis
- insist management is clear about:
 - what you are being asked to do
 - why you are being asked
- ask to see the challenges that have already been made
- plenty of time to read papers
- do the spelling and punctuation test outside the meeting

What does good look like?

Challenge is important

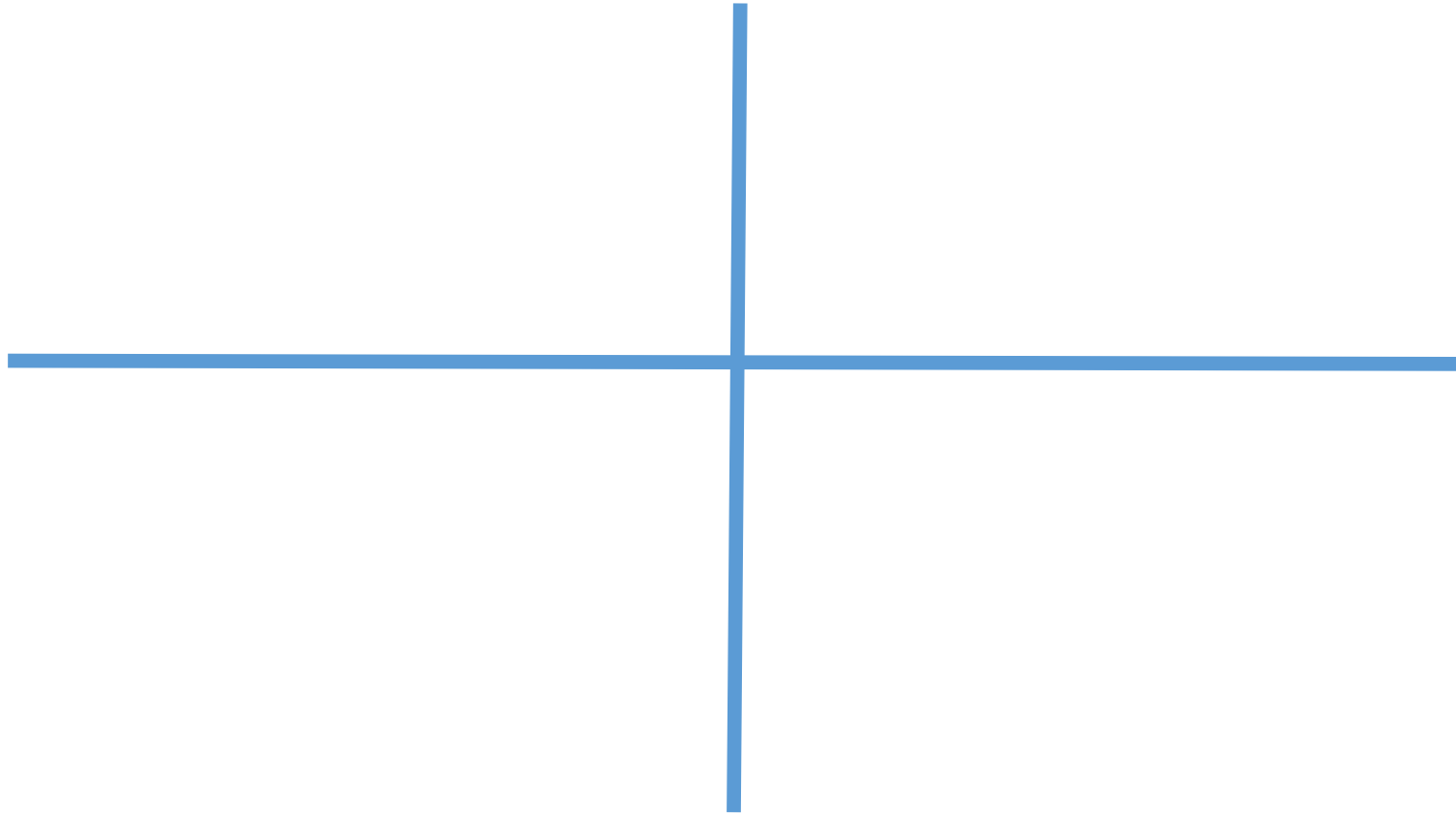
What does good look like?

Challenge is important

- the number of challenges is limited
- challenges can be documented
- challenges need not come just from NEDs
- Solvency II provides ample scope for challenge

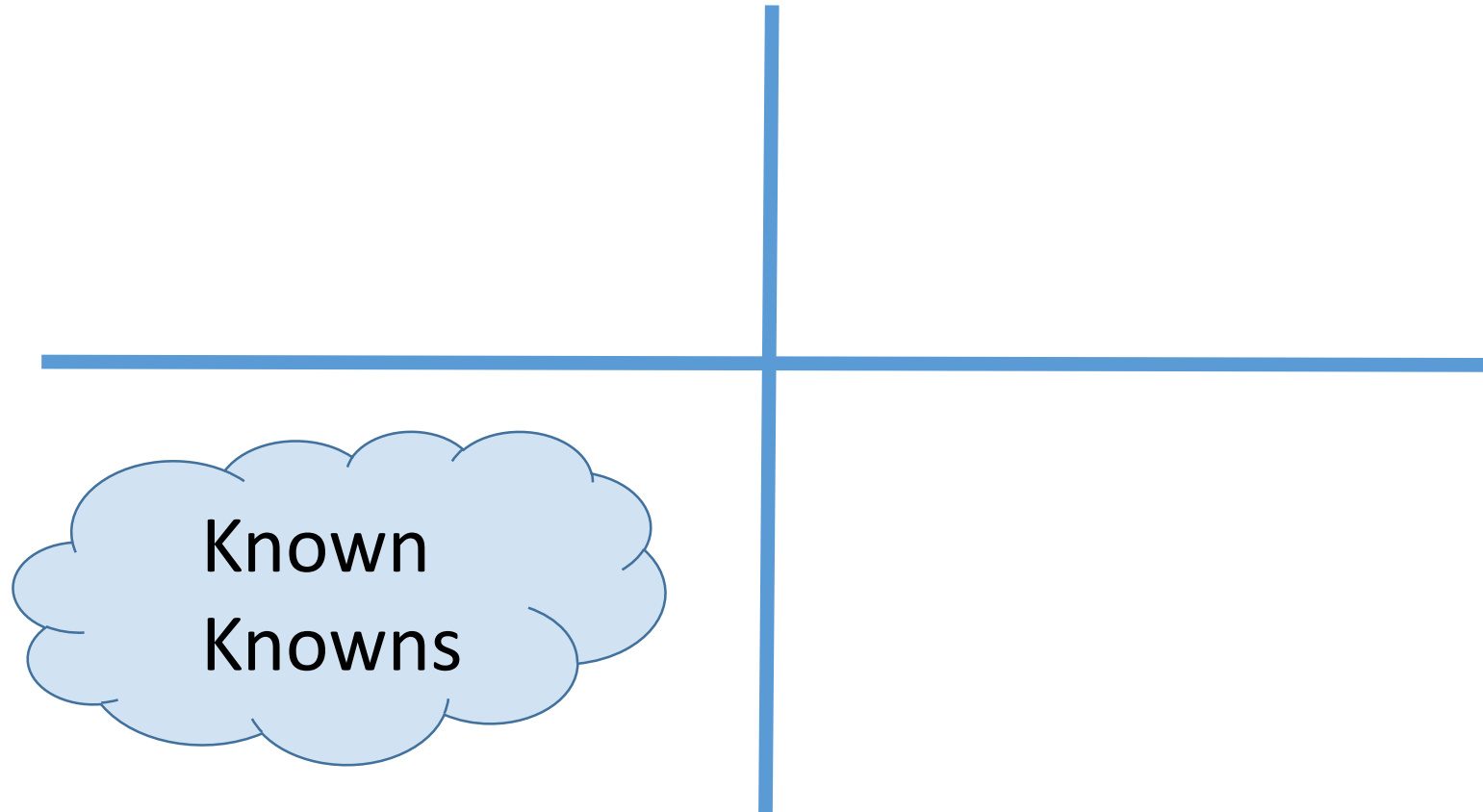
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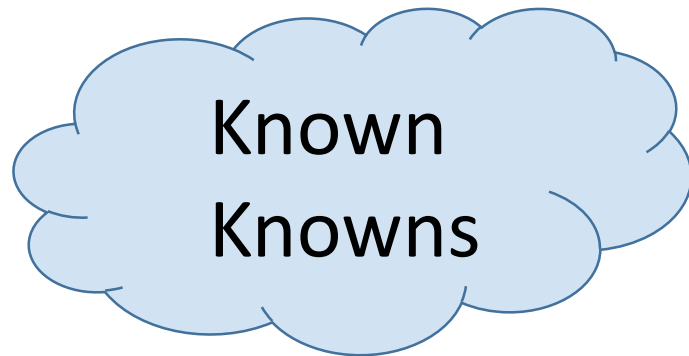
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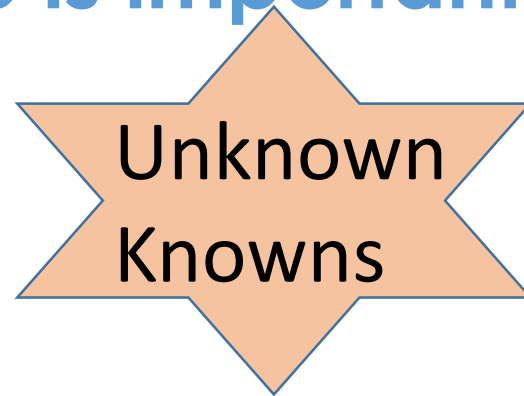
Challenge is important

This Month's Sales

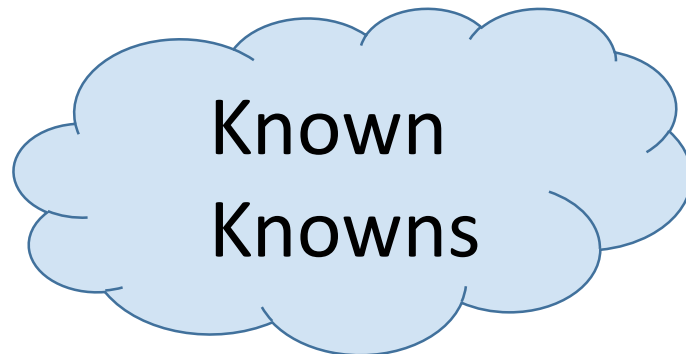


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Challenge is important



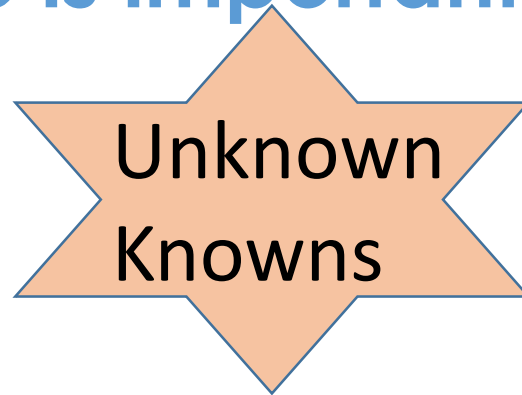
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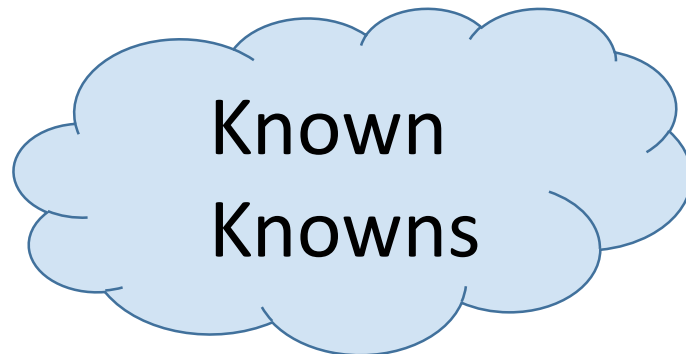
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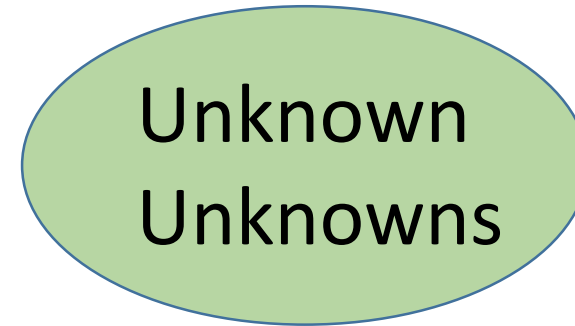
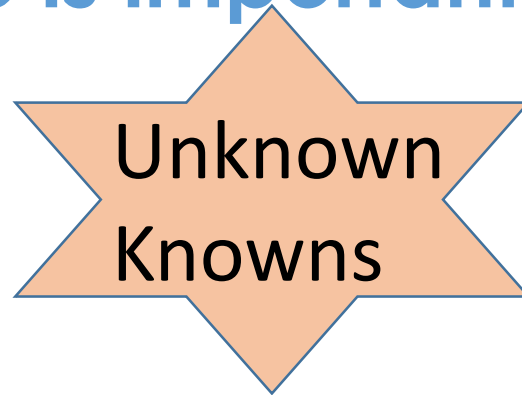
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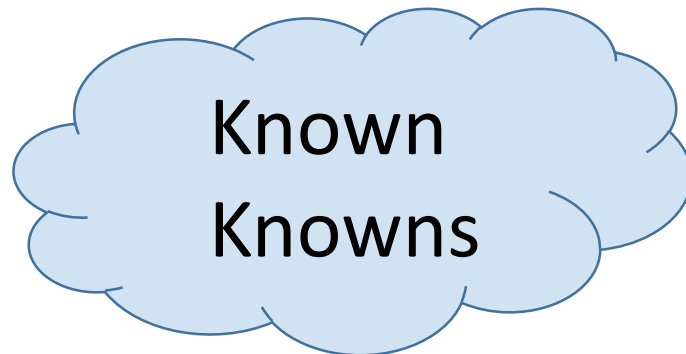
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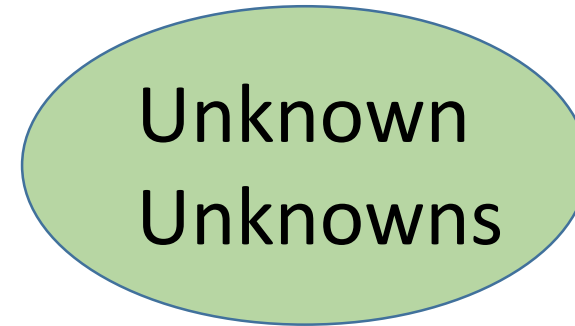
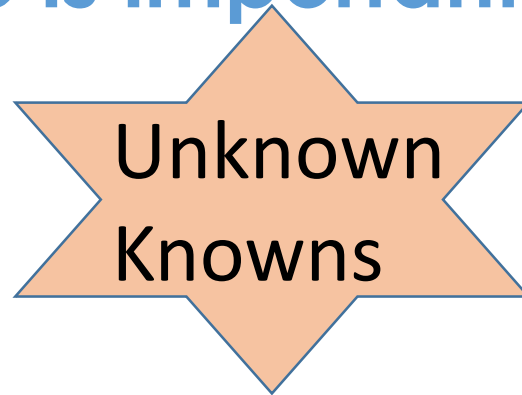
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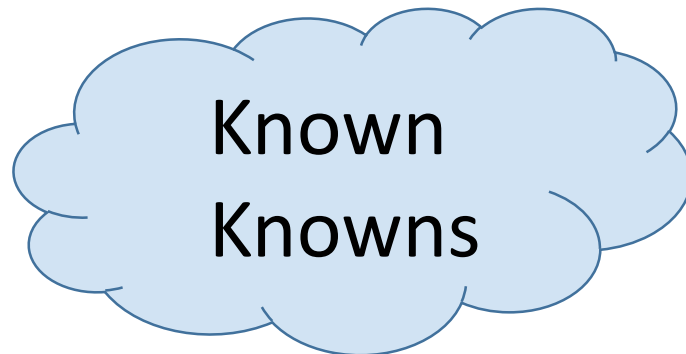
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2008 Credit Crunch

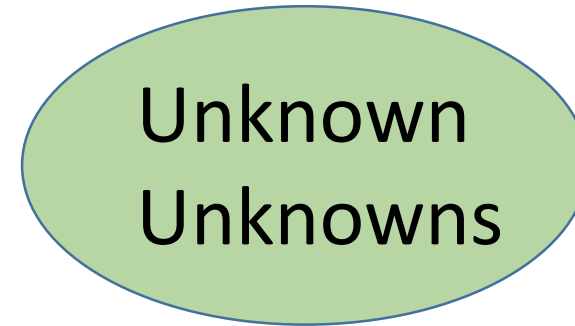
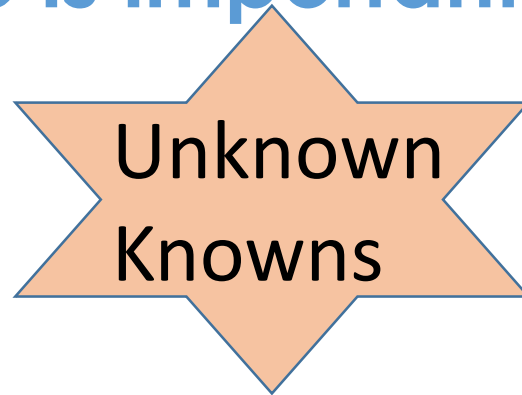
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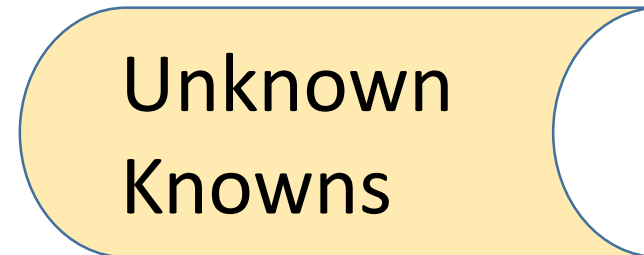
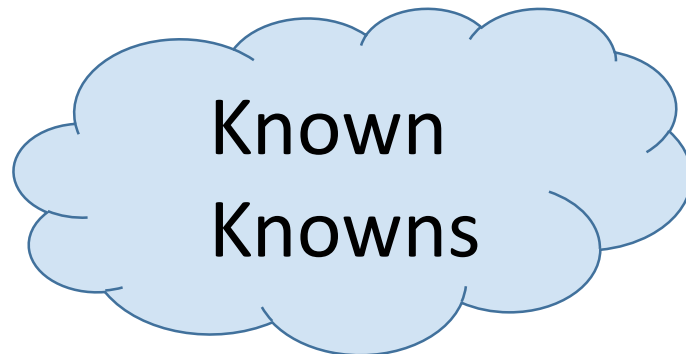
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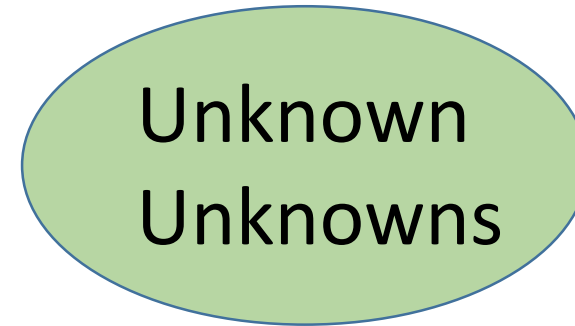
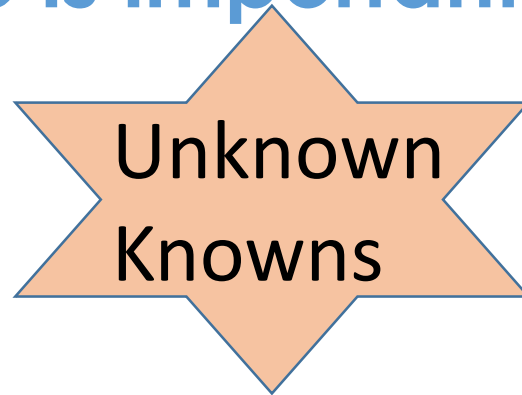
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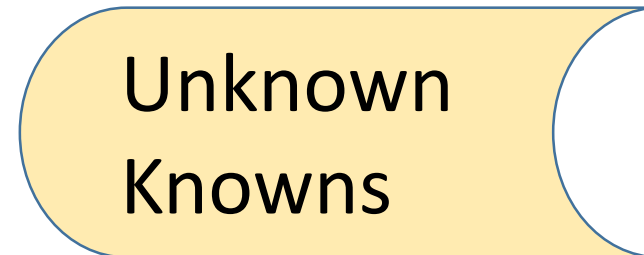
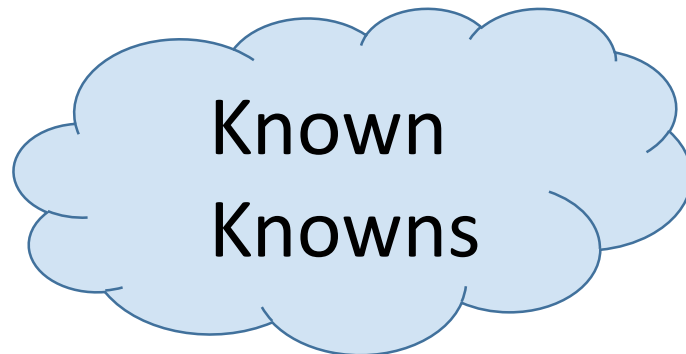
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2008 Credit Crunch

This Month's Sales



Worry about Colin

How does Solvency II help?

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Article 27

Main objective of supervision

Member States shall ensure that the supervisory authorities are provided with the necessary means, and have the relevant expertise, capacity, and mandate to achieve the main objective of supervision, namely the protection of policy holders and beneficiaries.

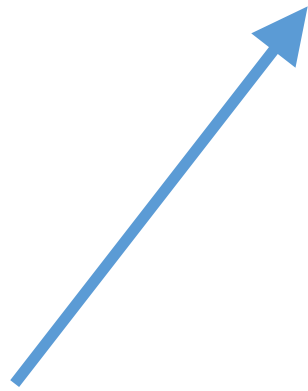
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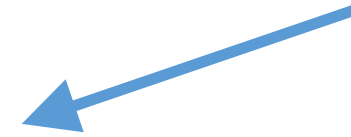
Enough money



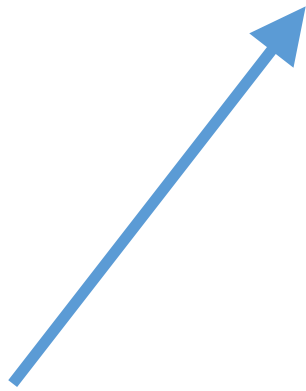
How does Solvency II help?



Good governance



Enough money



How does Solvency II help?

**The Board can press for better reporting
Leading to better challenges
and thus better governance**

Areas of Interest

- ORSA
- SFCR
- RSR

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Areas of Interest

- **ORSA**
- SFCR
- RSR

ORSA



ORSA

Can you meet the regulatory requirements in an 8-page report?



ORSA

Can you meet the regulatory requirements in an 8-page report?



No: it takes at least 12



ORSA

12-page ORSA (report available on request)

- Most ORSA contents are included to prove that a compliance process has been followed
- Follow a structured process, and compliance is assured
- The resulting report can be more focused

ORSA

12-page ORSA

- Process invites Board engagement
- It captures diverse attitudes
- The compliance burden is reduced

How does Solvency II help?

**The Board can press for better reporting
Leading to better challenges
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Areas of Interest

- ORSA
- **SFCR**
- RSR

SFCR

Dire document or good induction material?

- Regulator prescribes headings and content
- No-one reads
- Dry as dust

SFCR

What does the Board need?

- to present its governance effectiveness in public

How does this enable challenge?

- more understanding=>more engagement

SFCR

Holloway approach

- Try and make it readable by policyholders
- A communication exercise
- Reaction differed(!)

How does Solvency II help?

**The Board can press for better reporting
Leading to better challenges
and thus better governance**

Areas of Interest

- ORSA
- SFCR
- **RSR**

RSR

Not really SFCR+

- Some insightful and meaningful questions posed
- The Board's chance to demonstrate high standards of governance to the regulator
- Use the template as an ongoing report?

RSR

What does the Board need?

- to understand performance, what drives performance and governance standards

How does this enable challenge?

- it is the report that the regulator will use

Conclusions

Solvency II puts the Board in charge

- Directors can push for better reporting

Better reporting supports effective challenge

- Using the ORSA (financial management)
- Using the SFCR & RSR (governance)

Implement for meaning, value and insight

How Solvency II can be useful in the Boardroom

Thank you for your time

THE END