

*Steve Dixon, SDA llp

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Solvency II panel



Solvency 2 – Current state of play and CP12/13

Steve Dixon from Steve
Dixon Associates llp

What is happening?

- Trilogue
 - European Parliament and their subcommittee
 - Commission
 - Council of Ministers
- Long term guarantees package
 - Matching premium and restrictions on use
 - Counter cyclical arrangements

What is happening?

- MEPs and Council of Ministers disagreement
- Cypriot reported position – 2017 will be soon enough
- German reported position – “the medicine may be okay for a sick person not a well one”
- French position
- Decision that will do research before making a decision rather than after.

So, the impact is.....

- EIOPA has to do another impact study
- October 15th was crucial day for invitation
 - aim for 50% of market
- Early December firms should report back
- Early 2013 for analysis to be complete?
- Trilogue will then meet again
- Current view – 2015 to 2017?
- FSA believe 1/1/14 could possibly still be on but don't hold your breath

What does this mean?



FSA's view

- Do not want to change date from 1/1/14 until something formal is agreed.
- Will accept Solvency 2 SCR as ICA with justification
 - QIS 5 models not a waste of time
 - Operational risk differs
- Are very keen on ORSA
- May look at getting out a “transitional” position.
- Would like to keep talking to the industry
 - Especially when delay becomes clear
 - Would you like FSA to adopt S2 into rulebook irrespective of EU?
- Netherlands has implemented ORSA into own rulebook/law.

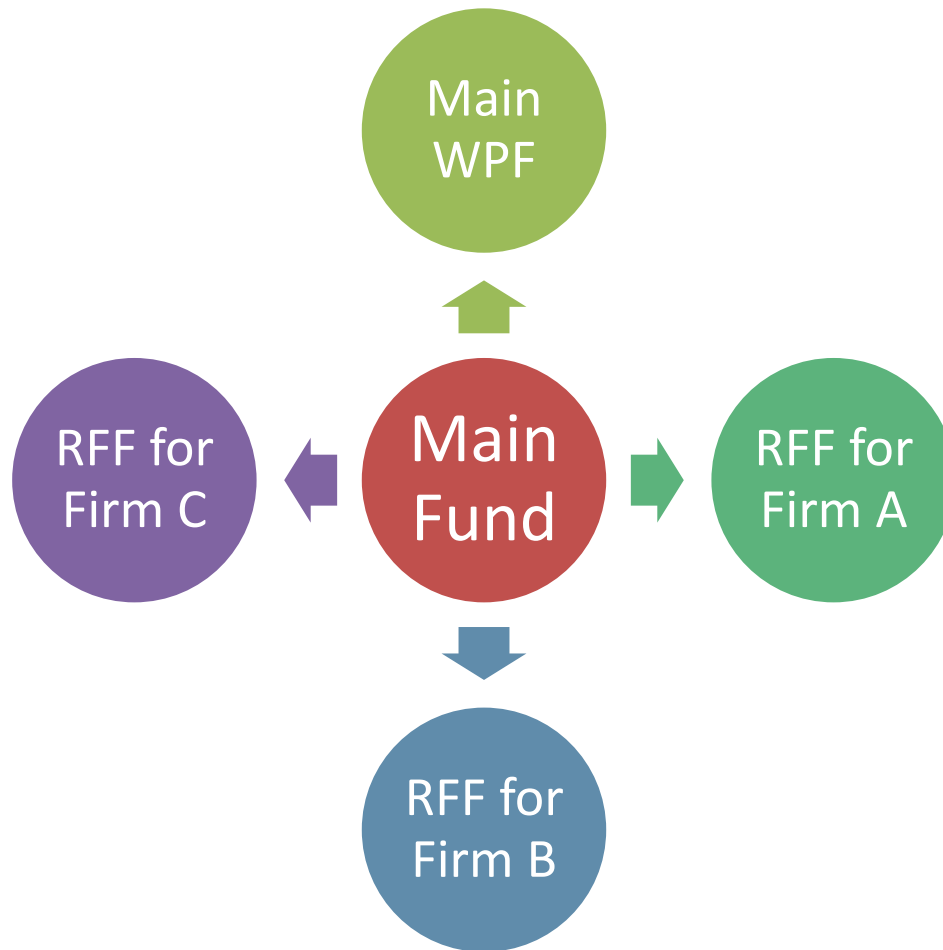
In the meantime....

- CP12/13
- Supposed to be a straight transposition allowing for with-profits and other odds and ends
- Really quite a change

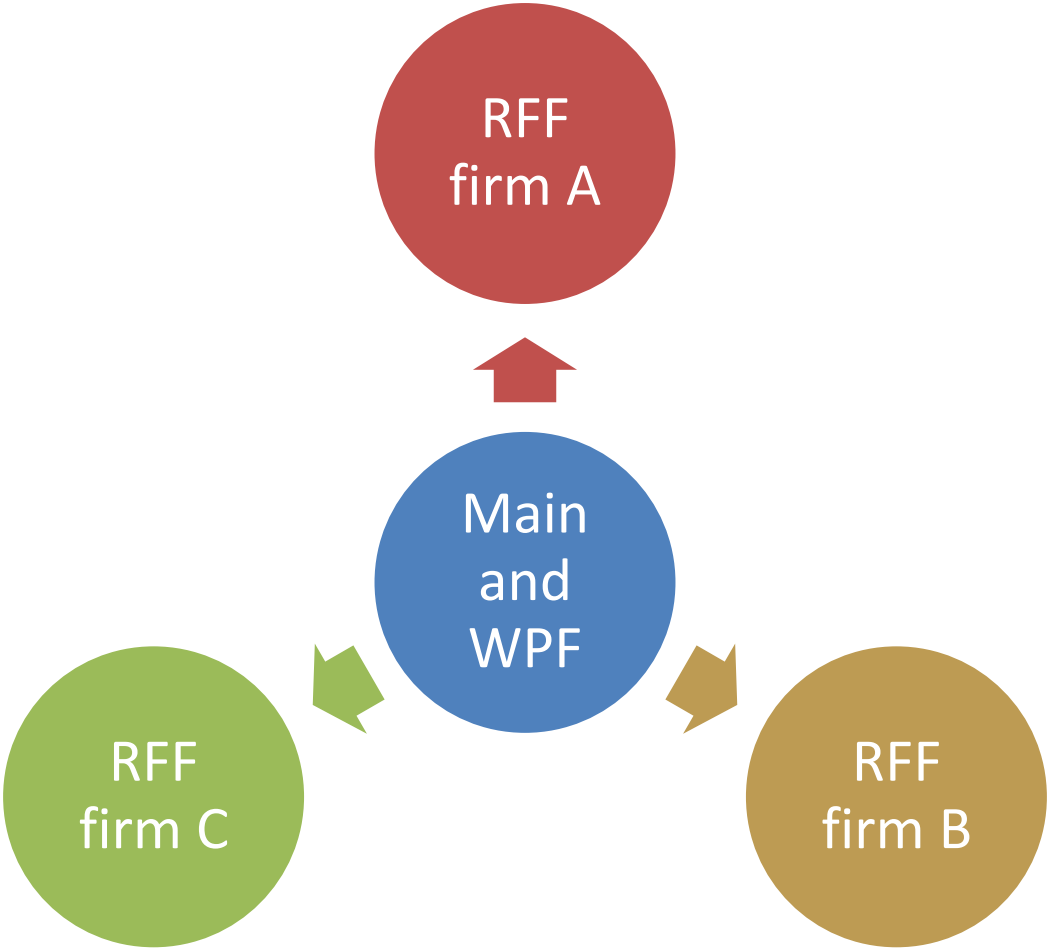
Main provisions – Ring Fenced Fund

- With profits business will need to be in a ring fenced fund in S2 terms
- No more LTBF
- RFF has specific meanings in S2 world
- No support out of RFF for remainder of fund
- No cash transferred out of RFF other than the normal shareholder transfer
- So no transfer allowed for mutuals.
- With profits fund includes all non profit policies supported by with profits capital
- Can put aside some assets for contingencies?

Diagrammatically



If you are mostly a with profit mutual?



Surplus

- Good news (vaguely)
- Excess over asset share and planned enhancements is available to meet SCR – tier 1.
- Asset share or alternative
- Change asset share (alternative) and planned enhancements on stresses?
- Asset share is more tightly defined
- Cannot be used for support of SCR outside RFF
 - Operational risk?
- Also, why asset share and not technical provision?

Excess Surplus

- Now defined as being in excess of:
 - SCR or
 - ORSA (note if $ORSA > SCR$ some consequences)
 - Plus new business plans

Distributions

- Large changes in definition of profits and where the distribution can come from
- Now the proportion refers to with-profit policyholders rather than policyholders
- Change in meaning

With-profits definition

- Definition of with profits means need material regular distributions

“a long-term insurance contract which provides benefits through, at least in part, eligibility to participate materially in periodic discretionary distributions based on profits arising from the firm’s business or from a particular part.”

- Somewhat spurious and silly definition of profits
- Includes amounts already within the technical provisions for future distributions.
- Simpler to say has “discretionary benefits”?

Overall

- Moves more of with-profits regulation into COBS20
- Need for RFF?
- Change in definition?
- Change in proportion- can you now make fair distributions to “non-profit” policies?
- Prejudges Project Chrysalis work.

“What if ? – if only!”

Graeme Charters

18 October 2012

relationship driven consulting™

OAC
ACTUARIES AND CONSULTANTS

ORSA Mythology

.....it's so difficult

"Everything should be made as simple as possible, but not simpler."

Interaction of Strategy, Risk and Capital



ORSA Reality

"Not everything that counts can be counted, and not everything that can be counted counts."

OAC

But when we need to do the counting.....

.....We have to have an actuary

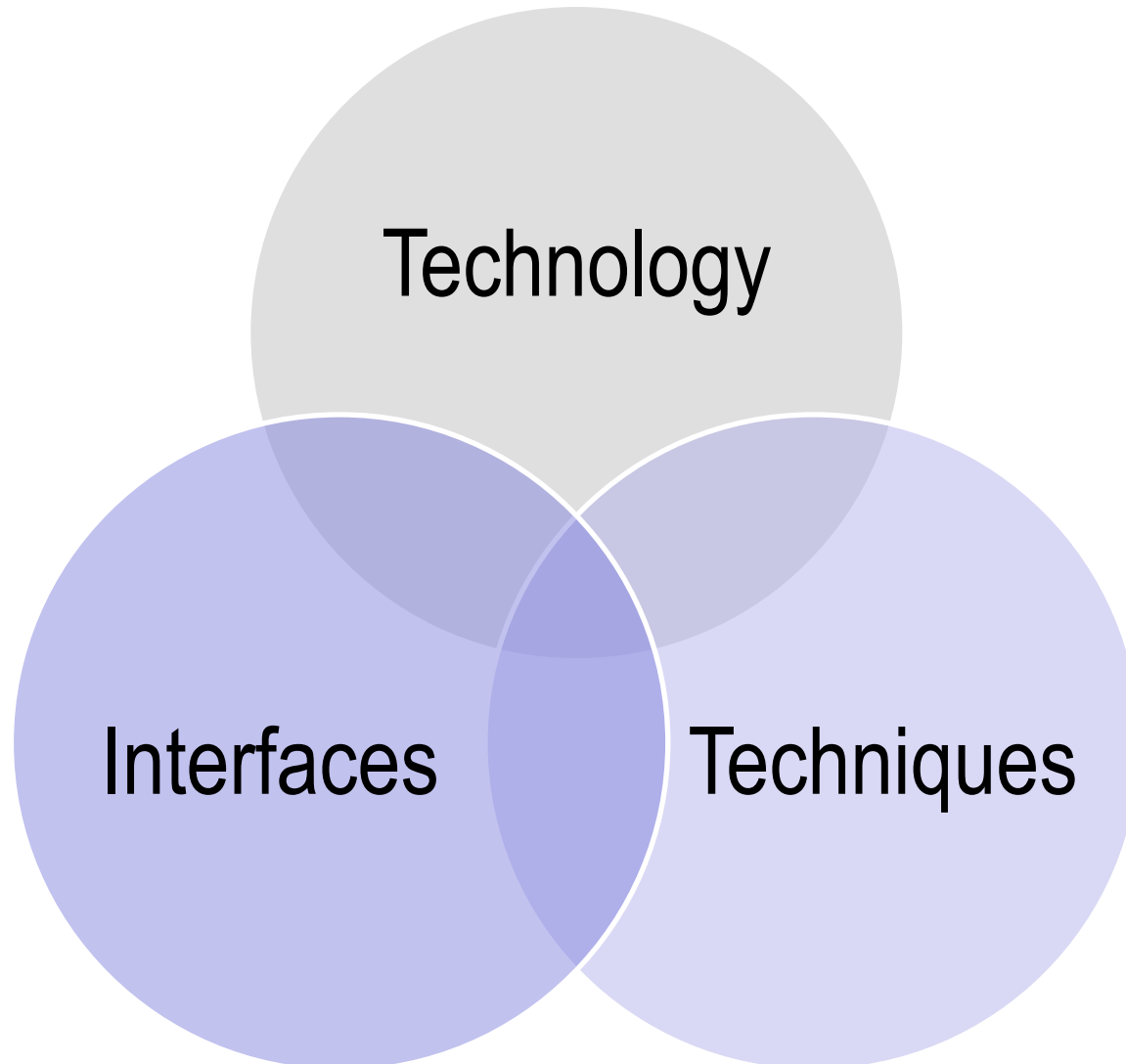
Or do we?.....

.....What if?.....

.....We could play around with some scenarios.....

.....and get some instant answers.....

Some components



Computing Technology



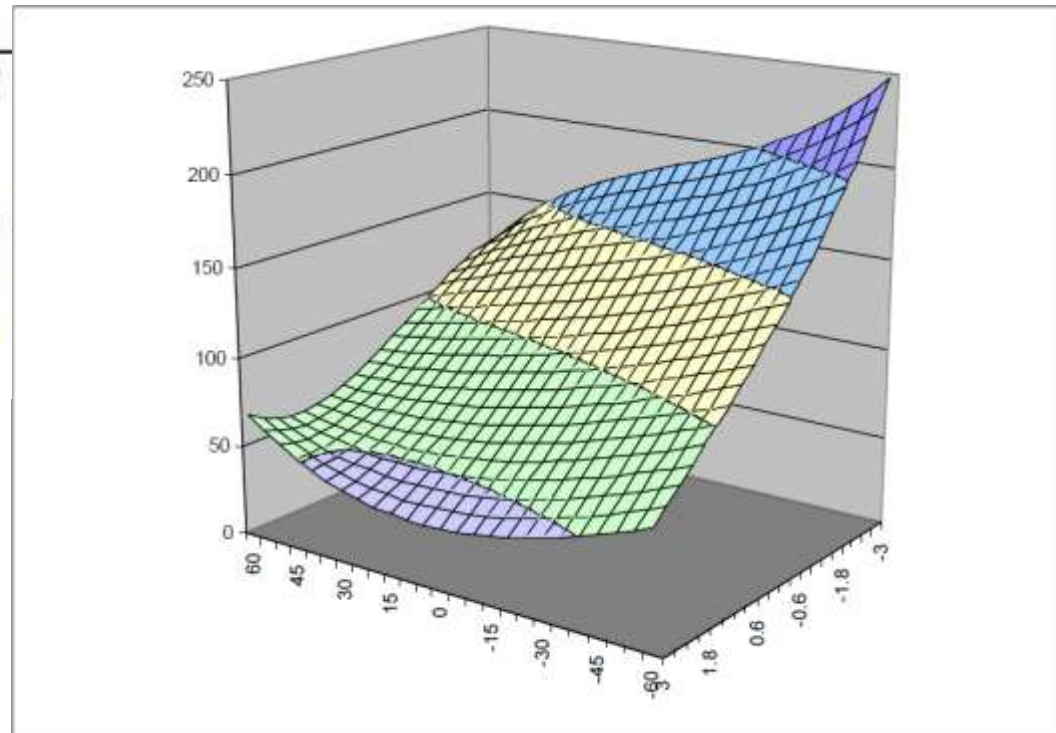
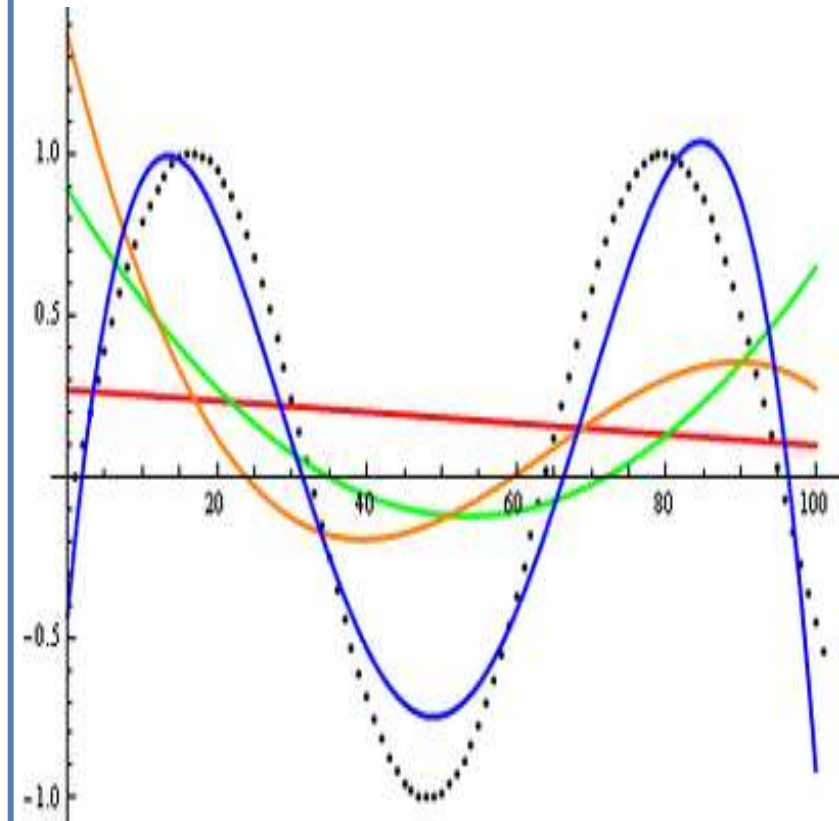
**Cloud
and/or
Graphics
Cards**



Actuarial Techniques

Replicating Formulae

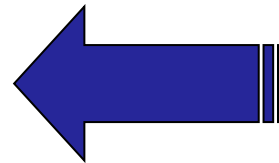
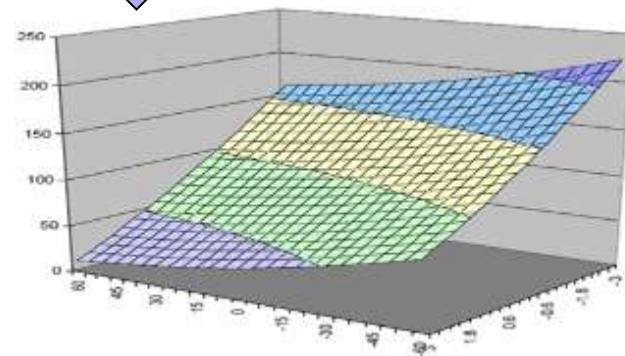
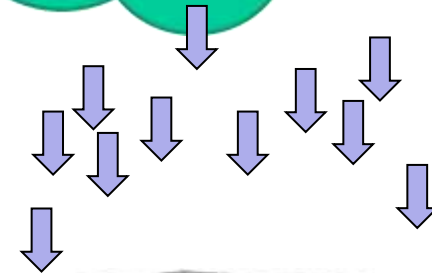
Generation of multiple nodes
as part of year-end processing



Interfaces



Combine them together



**CONFERENCE AND
ANNUAL GENERAL
MEETING**

THE BELFRY

16-18 OCTOBER 2012

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ORSA in a Small Mutual



How we use ORSA to drive the business

David Thompson
Chief Executive

ORSA in a Small Mutual



What Information did we already produce?

- Management Information
- Solvency Reviews
- Risk Management
- Management Actions
- Future Strategic Plans

Management Information



- Monthly/Quarterly/Annual Accounts
- Daily/Weekly/Monthly KPIs
- Sales & Marketing Data and Forecasts
- Cashflow Review
- TCF statistics

Solvency Reviews



- ICA – Annual Review
- Annual Valuation & FSA Forms
- QIS5 Reviews
- Ad hoc Actuarial Reports

Risk Management



- Risk Summary –
Categories, Scores and Probabilities
- Risk register and Identification controls
- Risk Section of ICA

Management Actions



- Investment Strategy – Bonds v Shares
- Sales & Marketing Plans
- Expense Control
- Review of Bonus Strategy
- Future Developments

Strategic Planning



- Business Plans and 5 year Finance Forecast
- Strategic Away Days : Blue Sky thinking
- Future Product Development
- IT Strategy
- Resource Planning – Staff, Property etc

What Extra do we need



- Executive Summary – updated Quarterly
- Regular Reporting and Assessment
- Ability to Update Actuarial Numbers in house
- Risk Appetite Review
- Staff buy in to monitor all risks – new and old
- Directors monitoring in simple format
- Feedback form Professional Advisers
- Utilise the info for ALL Decisions